



Impact Capital
for Development

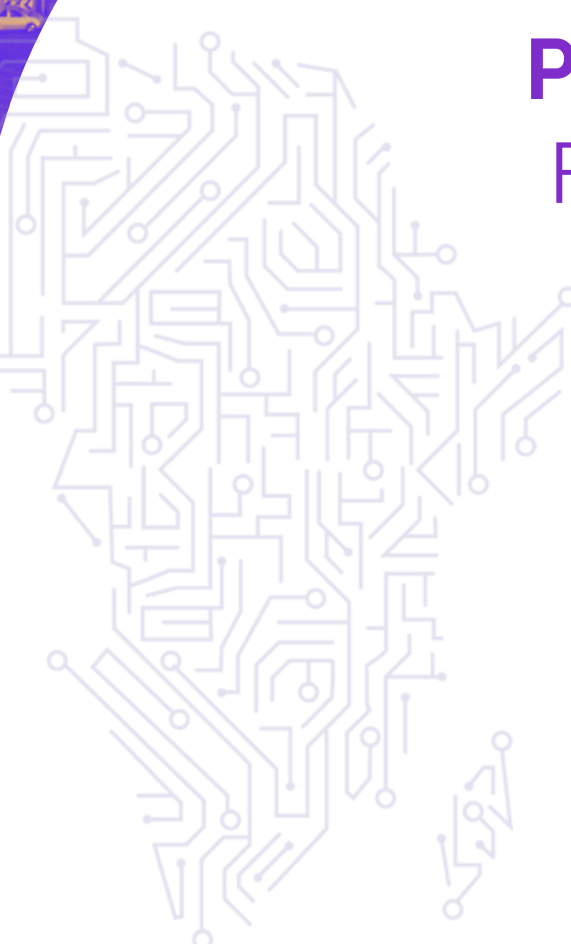


**UNCDF Ethiopia Country Office &
UNCDF Policy Accelerator**

ASSESSING PROGRESS AND PRIORITIES: ETHIOPIA'S FINANCIAL INCLUSION JOURNEY 2011-2022

Key insights from financial inclusion
data to build more meaningful and
inclusive access to finance in Ethiopia

AUGUST 2023



Contents

Foreword	01
Executive Summary	03
Key insights from the World Bank's Global Findex 2022 and other global databases	
ACCESS	04
USAGE	17
FINANCIAL HEALTH	27
Conclusions	32

Author

Sophie Falsini, sophie.falsini@uncdf.org

Design

Darina Hernikova, darina.hernikova@uncdf.org

Acknowledgements

This report has benefitted from the invaluable comments and feedback by Ahmed Dermish, Mike McCaffrey, Jeremiah Grossman, Ibrahim Mamma, Supraja Vadlamani, Amani Itatiro, Sewit Tadesse, Eliamringi Mandari, Mercy Wachira, Pippa McDougall, and Dominica Lindsey.

The views expressed in this publication are those of the author(s) and do not necessarily represent the views of UNCDF, the United Nations or any of its affiliated organisations or its Member States.

This publication was last reviewed in August 2023.

Foreword

At the beginning of 2023, the United Nations Capital Development Fund (UNCDF) took the time to reflect on the achievements realized, challenges faced, and lessons learned over the last year. With the release of the latest edition of the World Bank's Global Findex Database for Ethiopia in April 2023, financial sector stakeholders like us had new data to guide this annual process.

The Findex data—especially when analysed alongside other large datasets and publications from Ethio telecom, International Labour Organization (ILO), World Bank, the Organization for Economic Cooperation and Development (OECD), Global System for Mobile Communications Association (GSMA), National Bank of Ethiopia (NBE), and Safaricom—provide insights that help us better understand our progress and prioritize the work ahead of us.

We asked ourselves: to what extent has there been increased access to and usage of financial services in Ethiopia? Which segments of the population are benefiting most from innovation in financial technology, and why? Which types of services are mostly benefiting the population?

With the data at hand, we consider **'financial inclusion for what'** and explore access to finance in Ethiopia, focusing on its impact on improving financial wellbeing. We investigate who benefits the most from it and identify the segments that are left behind. Additionally, we analyse the enabling factors that can contribute to driving growth in the country. We examine the reasons why the financially excluded remain unbanked and ask what policy and regulatory changes and market-led interventions could enable more meaningful financial inclusion. Similarly, we ask how to better measure the outcomes of financial inclusion on specific target groups.

'Financial inclusion for what' implies that financial inclusion should not be pursued as a standalone objective. Instead, it emphasises the need to recognize the specific goals that financial inclusion aims to achieve. By considering financial inclusion from a broader perspective, we are prompted to think about the purpose and potential outcomes of providing access to financial services for various segments of society. This broader understanding allows us to grasp the significance of financial inclusion in areas such as poverty reduction, ensuring financial stability, and addressing societal and economic challenges.

Foreword

Since the beginning of 2023, the UNCDF Ethiopia Country Office has refocused its country strategy to address the key pillars of attaining inclusive digital economies and sustainable development. The strategy aligns current interventions as well as introduced new and innovative areas where UNCDF will be able to use its unique instruments and tools to influence the digital economy, particularly the digital financial services ecosystem in Ethiopia.

The key pillars of the strategy include:

- **Leveraging MSMEs** to create job opportunities and transition from an agriculture-based to a manufacture-led economy;
- **Advancing climate finance and investment** toward creating climate resilient economy;
- **Strengthening policy and regulatory frameworks** around Digital Public Infrastructure;
- **Developing an inclusive financial sector**, contributing to the advancement of ation in the humanitarian and development nexus while convening digital financial practitioners and investing in developing the ecosystem.

Under its Inclusive Digital Economies (IDE) practice, UNCDF is committed to using data and research to accelerate Ethiopia's transition to an inclusive digital economy, ensuring that nobody is left behind. This includes:

- Working with the **private sector** to understand challenges and opportunities linked to the digital financial service ecosystem and understand avenues for collaboration;
- Supporting the **public sector** to develop inclusive, evidence-based policies and regulatory frameworks that leave no one behind;
- Engaging with **civil society and advocacy groups** to stimulate participative and inclusive policymaking and provide women champions with an avenue to advocate for the empowerment of women, the youth, and left-behind groups.

Executive Summary

Moving forward, without leaving anyone behind

Progress in account ownership in Ethiopia has been largely driven by a slow but steady increase in financial institution account ownership. This is true for both men and women, even though gender gaps persist and are widening over time. Insufficient funds, distance from service points, and lack of documentation are among the major reasons why adults in Ethiopia do not own an account.

As for mobile money, which includes e-money services, account ownership rates remain low; however recent changes in the regulation as well as promising trends with respect to mobile network coverage in the country could lead to increased adoption in the near future. Continued progress in access to digital finance will depend on affordable, accessible, and safe Digital Financial Services (DFS) and mobile devices, as well as inclusive and secure verifiable identification systems.

Despite the growing opening of financial institution accounts, when it comes to usage, cash remains king. As for savings, savings clubs and family or friends as well as financial institutions remain the main channels, even though overall savings rates have decreased since 2017. Borrowings from informal sources such as family and friends remain key for Ethiopia, while over the years there has been a downward trend in borrowing from saving clubs and financial institutions.

Today, the majority of people in Ethiopia face difficulties in coming up with emergency funds, while relying heavily on family and friends or sale of assets as their source. Worries about inability to pay for medical costs and saving for old age are among the most relevant ones. However, concerns about paying for monthly expenses or school fees are also prominent. This indicates that enhancing financial health should remain a priority in the country.

The current policy-related and regulatory advancements in the country aimed at boosting digitisation and recent liberalisations in the financial market in Ethiopia are an opportunity for achieving significant progress in the country. It remains important that nobody is left behind from rapid innovation in digital technology. Women, the youth, and rural communities should be able to reap the benefits of digitisation, and all stakeholders should focus on going beyond access to work toward meaningful usage that builds resilience and promotes financial health.

The Ethiopian financial sector is experiencing shifts towards a more open system. The licensing of the new mobile network operator, the granting of the license for mobile money (M-PESA), and its anticipated commencement to provide additional products and services, have raised expectations in the market. The announcement by the Government of Ethiopia to provide licenses for foreign financial institutions in 2024 has brought about additional impetus to the playing field. Ethiopia is open for business and the opportunities for ensuring inclusive economic development are now. Based on global and regional lessons learned, the potential for inclusive digital financial and economic development is clear; yet, so are the challenges.

Key insights from the World Bank's Global Findex 2022 and other global databases:

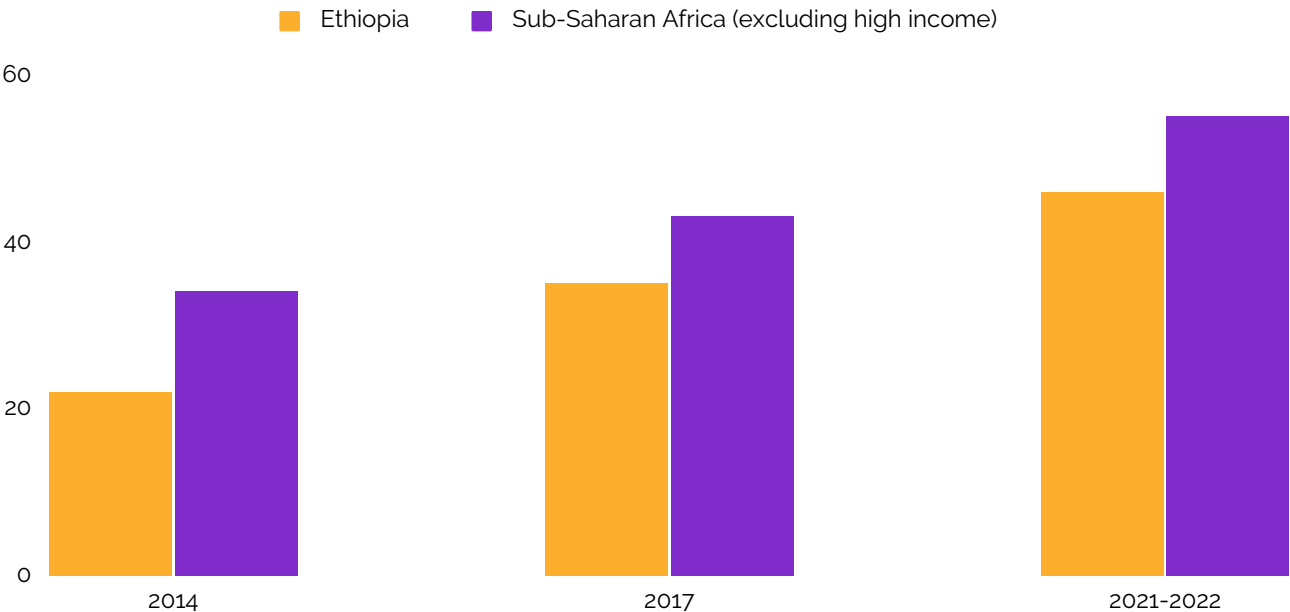
ACCESS

Access to finance through mobile money and financial institution accounts provides a crucial pathway to financial inclusion – especially for women. While financial institution accounts are leading the way in Ethiopia, mobile money ownership remains low. Women continue to face obstacles to becoming financially included. We must prioritize the analysis of both growth and gaps in access to finance to better understand and address challenges in Ethiopia.

1. Access to finance has been increasing regularly over the years

More than a billion people around the world gained access to a financial account over the last decade, with much of this growth occurring in developing economies. Despite constant growth since 2014, the percentage of adults in Ethiopia with an account (46%) is still lower than the percentage in Sub-Saharan Africa (55%). However, it should be acknowledged that account ownership in Ethiopia has almost doubled since 2014, with a growth rate similar to Sub-Saharan Africa (see Figure 1 below). Account ownership in Ethiopia grew by 24 percentage points, from just 22% in 2014 to 46% in 2022. Overall, in Sub-Saharan Africa, it grew by 21 percentage points, from 34% to 55% over the same period.

Figure 1: The rate of growth in account ownership in Ethiopia is similar to the rate of growth for countries in Sub-Sahara Africa (% , 15+), 2022



Source : World Bank Global Findex 2022

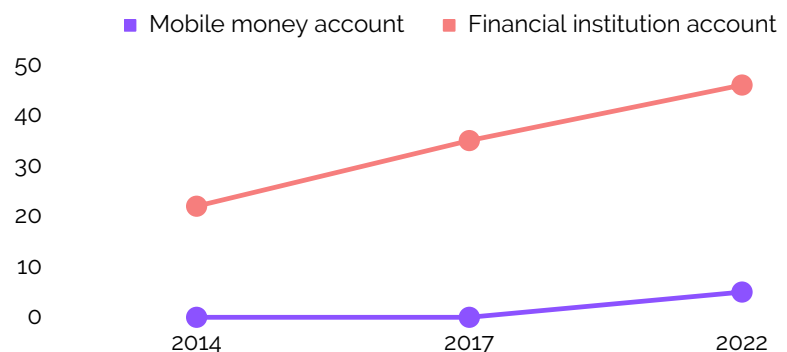
Accounts vs. Financial Institution Accounts

The Global Findex 2021 defines **account ownership** as ownership of an individual or jointly owned account at a regulated institution, such as a bank, credit union, microfinance institution, post office or mobile money service provider.

Financial institution refers to banks and other financial institutions that offer a transaction account that falls under prudential regulation by a government body (excluding mobile money accounts). The definition does not include non-bank financial institutions such as pension funds, retirement accounts, insurance companies, or equity holdings such as stocks.

The key implication for the analysis in this report is that when we say “account,” we include mobile money accounts. When we say “financial institution account,” we do not include mobile money accounts.

Figure 2: **Account ownership growth in Ethiopia: Financial institution account vs. mobile money account (% , 15+), 2014-2022**



Source : World Bank Global Findex 2022

While mobile money has been a strong reason for growth in access to finance in several Sub-Saharan Africa countries like Kenya, Uganda, and Tanzania, the adoption of mobile money in Ethiopia remains relatively low. Since 2014, the pace of growth of financial institution accounts has been greater than that of mobile money accounts. As such, access to finance is still dominated by financial institution accounts (see Figure 2 above).

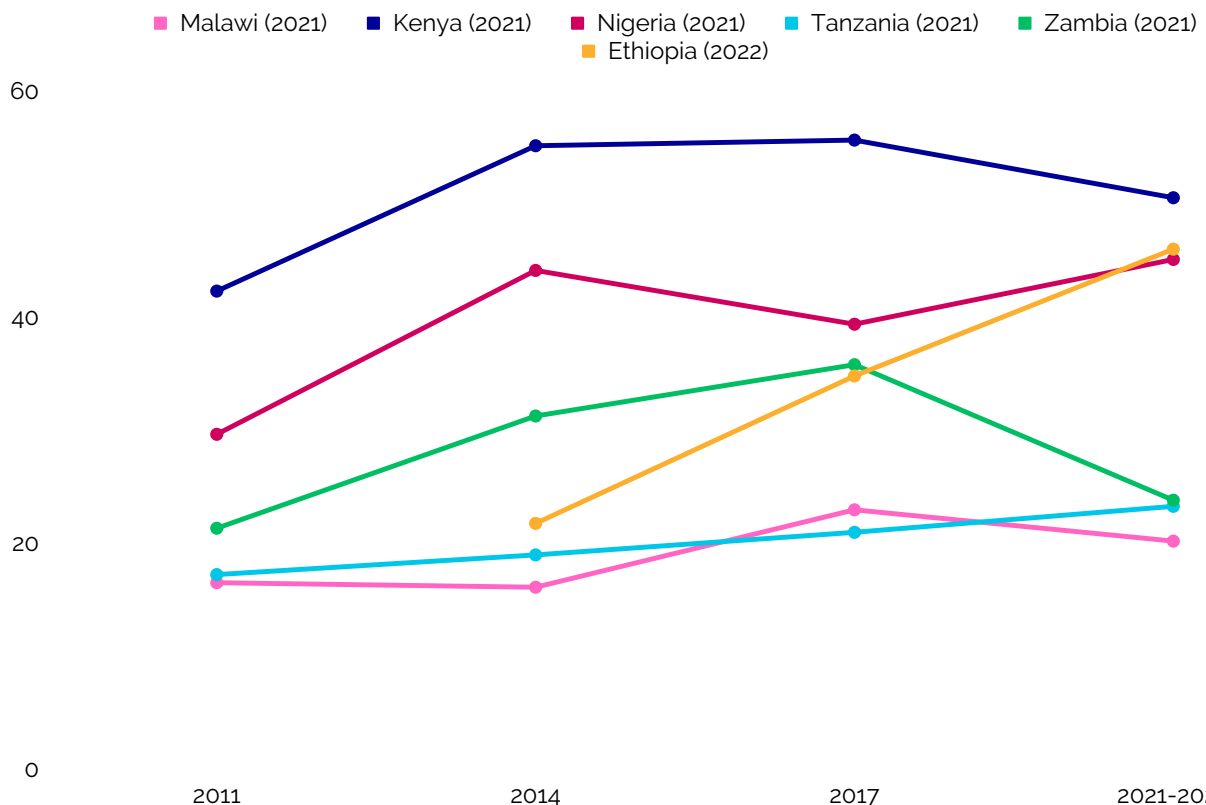
As per recent data from the National Bank of Ethiopia (March 2023), the number of financial institutions in the country grew by 23% compared to the same period in 2022 (NBE 2023). Mobile money has now reached nearly 60 million subscribers (last updated data from December 2022). The recent developments in the country, following the issuance of the first mobile money service license to a foreign investor, Safaricom M-Pesa Mobile Financial Service, alongside EthioTelecom's TeleBirr mobile money service, will most certainly expand digital transformation in Ethiopia and boost mobile money adoption, at least for certain strata of the society.

ACCESS

As shown in the graph below (see Figure 3 below), access rates to financial institution accounts across Sub-Saharan Africa vary largely by country. Ethiopia's relatively low rates in 2014 have grown steadily over the years until 2022. Tanzania has also experienced steady growth, yet the increase has remained minimal at 6 percentage points between 2011-2022. Kenya, Nigeria and Zambia show a more fluctuating picture; yet percentage growth varies widely across them, with Nigeria growing by 15 percentage points, Kenya by 9 percentage points and Zambia by only by 3 percentage points over time.

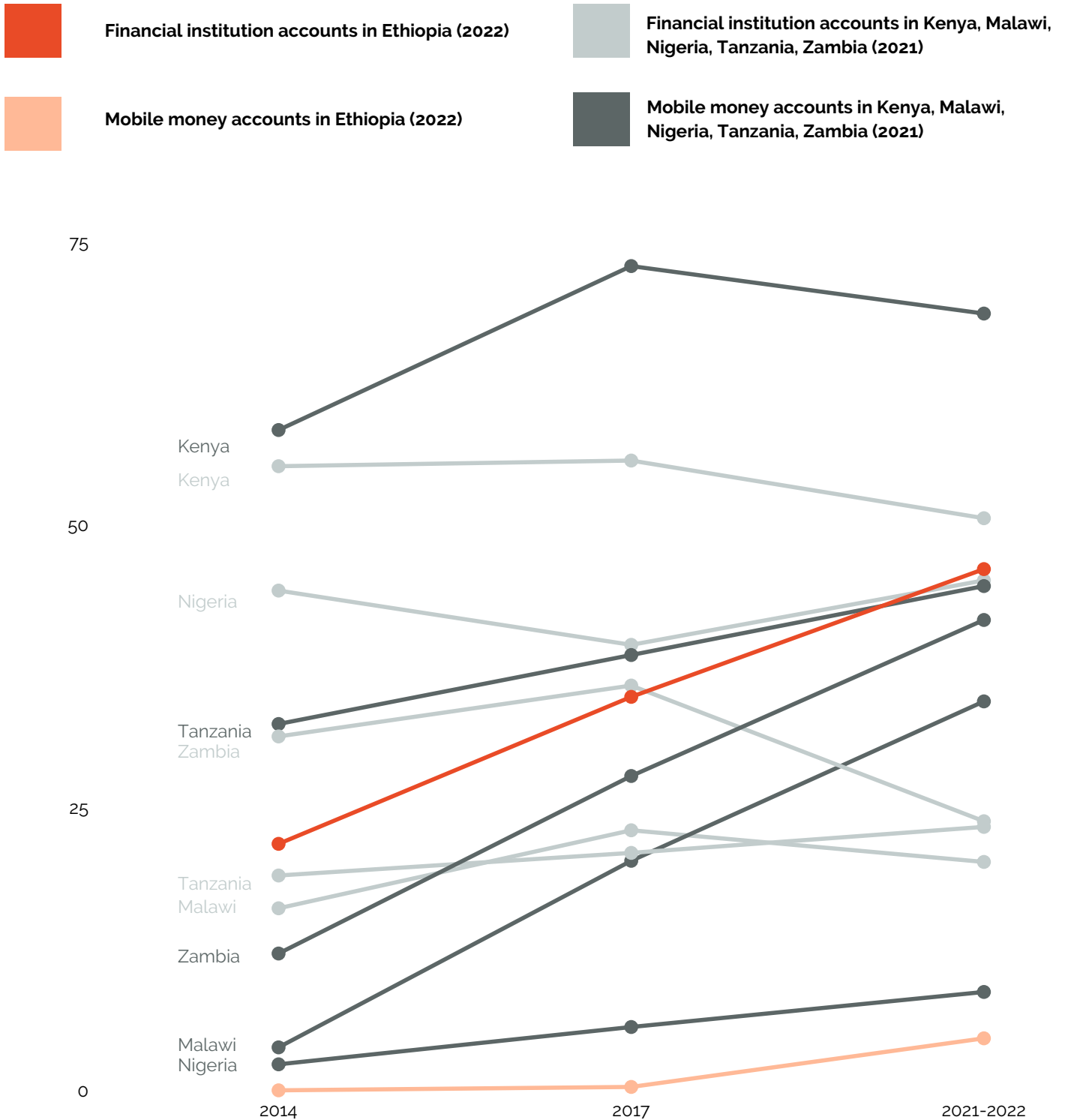
While there are many reasons contributing to the different countries' trajectories (state of financial infrastructure, regulatory environment, economic development, recurring crises or shocks, etc...), the uptake of mobile money accounts might also have played a role. For instance, in countries like Malawi or Tanzania, where financial institution account rates remained relatively low and stable, mobile money uptake has outpaced financial institution account uptake (see Figure 4). In others like Nigeria, mobile money rates are negligible vis-à-vis financial institution accounts, which continue to thrive in the country. In other countries, mobile money might even enable financial institution accounts, serving as the first gateway to low-income customers to accessing formal financial services and allowing them to build their credit history and profit from integrating with financial services. Deeper analysis of the data would be required to unpack this issue further, assessing mobile money and financial institution accounts usage patterns in Sub-Saharan Africa and drawing hypotheses on whether they reinforce or rather replace each other.

Figure 3: Financial institution account, adoption rates (% , 15+), 2011 - 2022



Source : World Bank Global Findex 2022

Figure 4: Financial institution accounts vs. mobile money account uptake in Sub-Saharan Africa (% , 15+), 2014-2022



Source : World Bank Global Findex 2022

2. Financial institution accounts still lead the way for people in Ethiopia, yet gender gaps persist

While financial institution accounts are leading the way in Ethiopia, gender gaps remain high, with women facing critical obstacles to financial inclusion. Rates of mobile money ownership remain low. Prioritizing analysis of both growth and gaps in access to financial accounts is key to understanding and addressing challenges in Ethiopia's financial sector.

When we look at the gender gap¹ in account ownership in Ethiopia, we notice that for **financial institution accounts**, it increased from 2 percentage points in 2014 (21% for women vs. 23% for men) to 17 percentage points in 2022 (38% for women vs. 55% for men) (see Figure 5). These trends highlight that women still face obstacles in becoming financially included.

For **mobile money accounts**, gender gaps are present but still low given the low rates of adoption in the country (1 percentage point in 2022, see Figure 6).

Figure 5: Gender gaps in ownership of a financial institution account, 2014-2022 (% , age 15+)

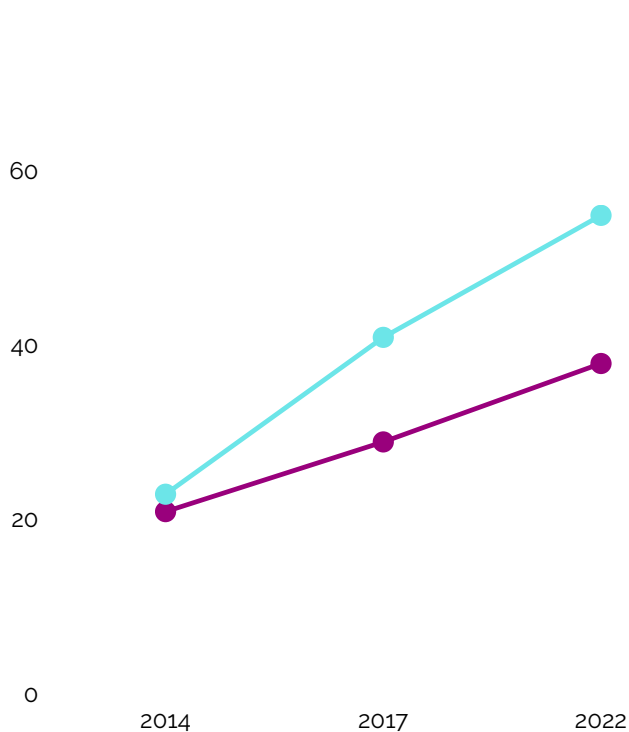
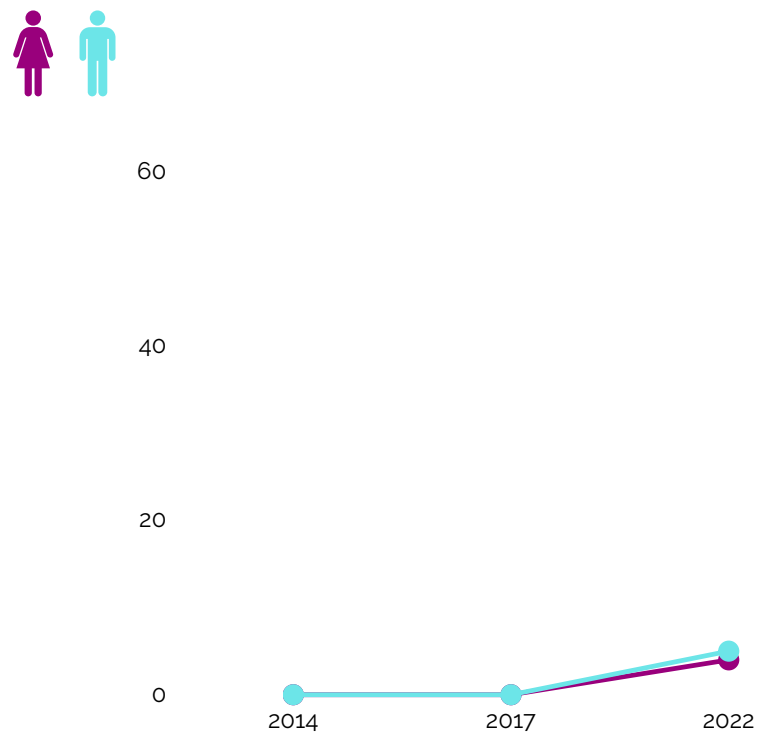


Figure 6: Gender gaps in ownership of a mobile money account, 2014-2022 (% , age 15+)



Source : World Bank Global Findex 2022

¹The gender gap in percentage points is calculated as follows: % male - % female.

ACCESS

3. Barriers persist: Affordability, accessibility and lack of documentation drive exclusion

- **Insufficient funds, distance from service points, and lack of documentation are the major barriers to financial inclusion**

Figure 7: No account because... (% of adults age 15+ without an account)



Source : World Bank Global Findex 2022

As Findex 2022 data shows (see Figure 7 above), adults in Ethiopia identify insufficient funds, distance from service points, and lack of documentation as the three main reasons for not owning an account.

When it comes to cost constraints, these may be both real and perceived. **Real cost constraints** point to broader economic issues as well as poor livelihood opportunities for people to earn sufficient income. Between 2011 and 2019, Ethiopia made remarkable strides in reducing poverty, continuing the positive trend that had been observed since the 2000s. During this period, rates of population in multidimensional poverty² decreased from 83% in 2011 to 77% in 2016, ultimately reaching 69% in 2019 (UNDP 2022). The reduction in poverty during this period was primarily driven by a decrease in the percentage of people facing poverty and deprivation in terms of access to education. Additionally, improvements were observed in areas such as access to clean drinking water, assets, electricity, housing, cooking fuel, and sanitation. Yet, recent shocks including the COVID-19 pandemic, drought, and conflict in Northern Ethiopia, have had a substantial impact on the country. Due to the rapid population increase in the country, however, the absolute number of people living in poverty has continued to increase.³

On the other hand, there are people who can theoretically afford to open an account (including the cost to travel to a bank branch or other service point, pay any account opening and initial deposit fees, etc.), and who may even want to engage with the financial system, but do not because the **perceived costs** of money and time spent on the road are too high in relation to the perceived benefits of doing so (see “no account because financial institutions are too far away”).

²This data refers to the Multidimensional Poverty Headcount index, which is expressed as a share of the population in the survey year and the number of poor people in the survey year.

³As an example, while in 2004 there were 35 million people were living in poverty, in 2015 there were around 38 million (latest available data, World Bank Poverty and Inequality Platform - 2015).

ACCESS

Finally, limited access to **proper documentation** is a major constraint to account opening and a driver of financial exclusion. As of 2017, 64% of the population in Ethiopia had an ID (World Bank ID4D 2017), which may explain why 29% of the adult population without an account mention lack of documentation as one of the reasons for not having one (World Bank Findex 2022). However, the recent roll-out of Ethiopia's digital ID (Fayda) is a positive step forward, especially since this was enacted by the House of Peoples' Representatives under the Ethiopia's Digital ID Proclamation No.1284/2023. The digital ID is free of charge and will allow many Ethiopians to move towards digitisation by fostering integration with financial service providers.

Not having an account because somebody in the family has one should also be acknowledged as a key barrier. This may allude to the fact that some people might not perceive the need or urgency for being financially autonomous and independent; it could also suggest that possessing a personal account may not be enough to grant them a sense of increased autonomy or independence. Similarly, it can also hint at the fact that the value proposition of formal financial services is yet not adequate to fulfill the needs of potential customers, who might still prefer informal financial solutions. Additionally, the influence of gendered social norms and limited financial literacy might contribute to this circumstance.

- **Affordability and accessibility remain barriers to financial inclusion for women in particular**

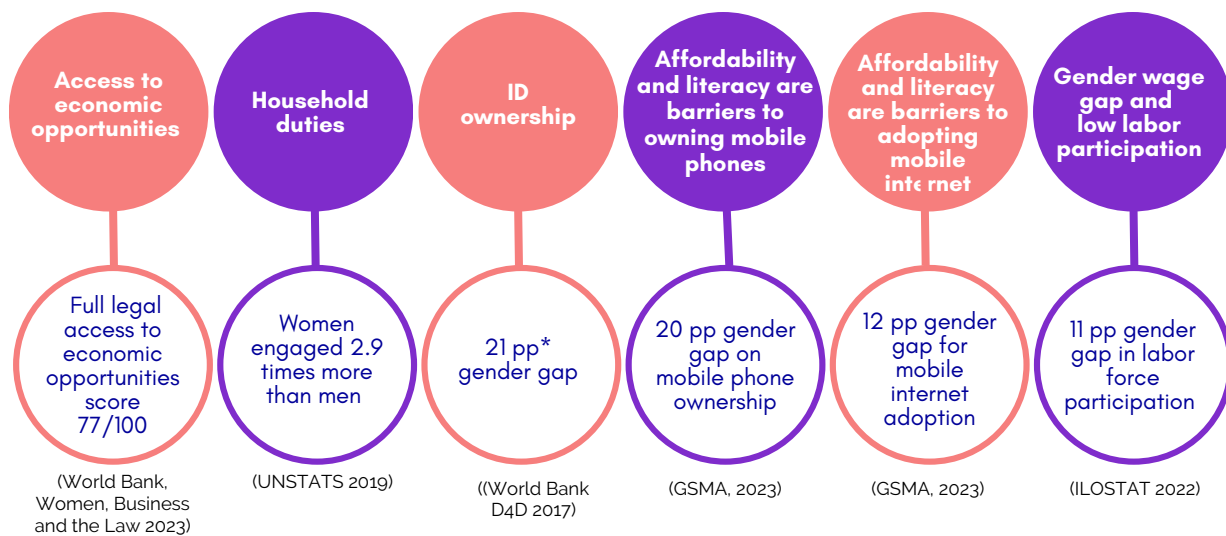
While the constraints described above are applicable to both men and women, women are disproportionately affected (see Figure 8 below).

Given their higher unemployment rates compared to men (labour force participation rate among women is 75% vs. 86% for men in 2022, ILO 2022 via World Bank Gender Data Portal) and the burden of the care economy (UNSTATS 2019 via World Bank Gender Data Portal), many **women may lack sufficient disposable income** to open, access and control an account or utilise financial-related products and services.

Accessibility to financial services and products is also a challenge. **Lack of proximity to financial service points remains an issue** to women whose mobility might be restricted due to socio-cultural norms. According to data, women in Ethiopia **daily spend on average 2.9 times as much time on unpaid domestic, care, and volunteer work than men** and do not enjoy the same legal rights and decision-making abilities and responsibilities within the household as men (UNSTATS *ibid.* 2019).

Finally, it should be noted that a large gender gap persists in access to an official ID in Ethiopia (as for 2017 data), with a gap of 21 percentage points between men and women (World Bank ID4D 2017, % 15+). **Low access to documentation** is a key barrier for women. While Know Your Customer (KYC) requirements are typically not as onerous for mobile money as they are for bank accounts, women are typically less likely than men to have verifiable identification.

Figure 8: Women face barriers to inclusion across a range of themes



*pp = percentage points

- **Low uptake of digital and mobile internet-enabled devices are a constraint to the growth of digital financial services**

The increasing prevalence of digital and mobile internet-enabled devices has emerged as a critical factor influencing the adoption and usage of digital financial services, presenting both opportunities and challenges in the financial landscape.

In Ethiopia⁴, 75% of men compared to 55% of women own a mobile phone (GSMA 2023, see Figure 9 below). With a resulting gender gap of 20 percentage points, Ethiopia's gap is higher than Egypt (2 percentage points), Kenya and Nigeria (5 percentage points respectively), Ghana (6 percentage points), or Senegal (12 percentage points).

According to GSMA data, affordability, literacy/digital skills, and relevance were cited as the most important barriers to mobile ownership for men and women (non-mobile owners).

Gender gaps are also present for mobile phone use, as women tend to use their mobile phones and mobile services for a less diverse range of use cases than men.

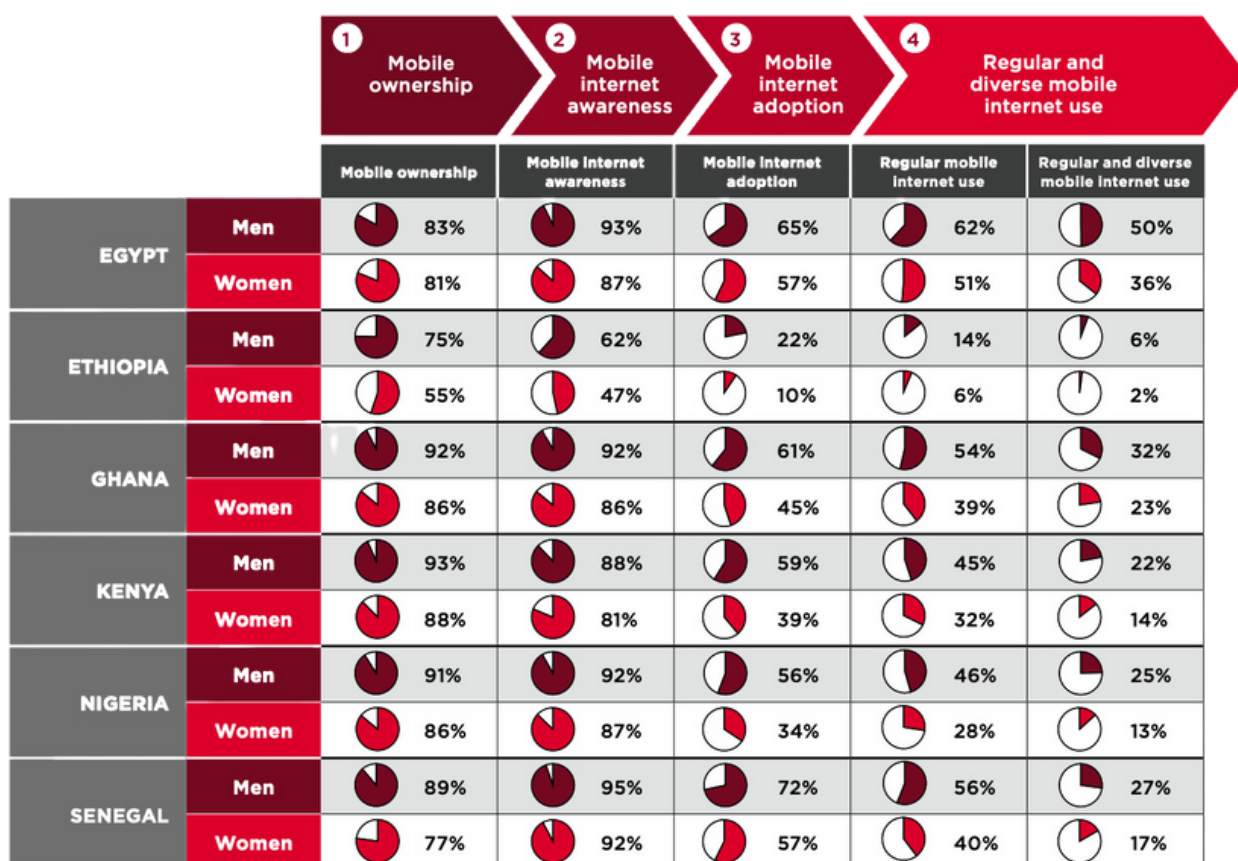
When it comes to mobile internet in Ethiopia, adoption rates stand at 22% of men and 10% of women, respectively. Yet, data demonstrates that having an internet-enabled handset does not always mean that people actually use the internet; this suggests that there might be barriers preventing them from doing so. GSMA data highlights that awareness of mobile internet in Ethiopia tends to be limited both for men (62%) and women (47%). In general, 77% of female and 63% of male mobile users who are aware of mobile internet still do not use it.

⁴ In Ethiopia, no interviews were conducted in the Tigray region and six other zones due to security concerns. These areas represent 12% of the population of Ethiopia, therefore, the sample was representative of the 88% of the population who live outside these areas.

ACCESS

Among those owning an internet-enabled handset, data shows that 10% of men and 16% of women do not know what mobile internet is, and a further 40% men and 43% women are aware of mobile internet but still do not use it.

Figure 9: The mobile internet user journey (% of total adult population)



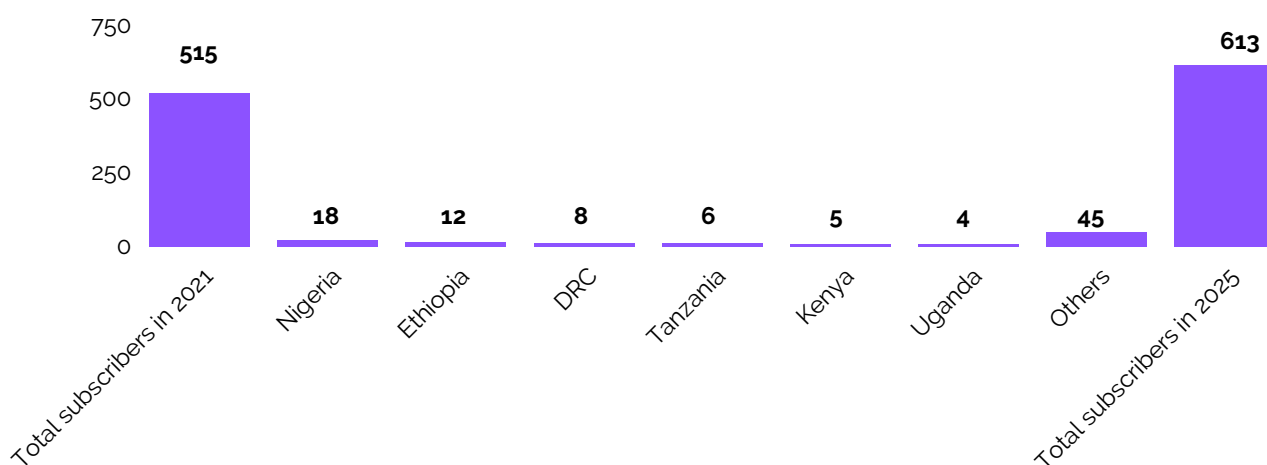
Source: GSMA, The Mobile Gender Gap Report 2023

The perception around the usefulness of mobile internet might be among the many reasons for the low usage rates in Ethiopia. For instance, according to GSMA data, more than a fifth of mobile internet users in Ethiopia feel that mobile internet has a very negative or somewhat negative impact on their lives. The reasons why this is so should be further investigated. Encouragingly, over two thirds (68%) of mobile internet users felt it had an overall positive impact on their lives.

Despite current challenges, GSMA Intelligence predicts that mobile money subscribers in Sub-Saharan Africa will grow exponentially in the coming years, potentially with nearly 100 million additional subscriptions in the region by 2025, of which Ethiopia should account for about 12 million (GSMA 2022b, see Figure 10 below).

As shown by Findex 2022, in Ethiopia 13% of the population has access to the internet (World Bank Findex 2022). As for the technology mix, in 2022 92% of the population had 3G mobile network coverage, 20% connected to 4G and 2% to 5G (GSMA 2022a).

Figure 10: **There will be nearly 100 million additional mobile subscribers in Sub-Saharan Africa by 2025; Nigeria and Ethiopia will account for almost a third of these (new mobile subscribers, millions)**



Source: GSMA, Intelligence & The Mobile Economy Sub-Saharan Africa 2022

The growth of mobile subscriptions in Ethiopia

Ethiopia is Sub-Saharan Africa’s second-largest market, having a population of around 120 million, 78 percent of whom live in rural areas. Despite its size, the country is currently being served by only two telcos. Yet, the mobile sector is developing quickly: As of 2022, Ethio Telecom launched a pre-commercial 5G network in cities such as Addis Ababa and Adama and has worked on its network expansion and optimization works. In 2022, Safaricom Ethiopia launched its fast-track services, which are now available in multiple cities and are growing the company’s subscribers base. The liberalisation of the telecoms sector is expected to drive subscriptions growth as competition between the incumbent operator Ethio Telecom and new entrant Safaricom Ethiopia brings down prices for consumers, stimulates investment in network infrastructure, and inspires the development of innovative adjacent services (GSMA 2022b; Techabal 2023; Ethiotelcom 2023).

- **Low levels of financial and digital skills are a persistent constraint to meaningful, safe, and secure access to finance**

Financial and digital literacy are essential to ensuring that account holders can confidently make informed financial decisions and access recourse mechanisms; It also reduces vulnerability to financial fraud and abuse linked to new Digital Financial Service (DFS) products (mobile app fraud, SIM swap fraud and data breaches, agent fraud, Ponzi schemes, etc...), which low-income and rural women are disproportionately exposed to (CGAP 2022).

As of 2015 data (World Bank Gender Data Portal 2015, most updated), 29% of girls and 30% of boys had completed lower secondary school in Ethiopia. This rate is lower than the average for Sub-Saharan Africa (World Bank Gender Data Portal 2020).

ACCESS

With regard to adult literacy⁵ in Ethiopia, in 2017 there was a gender gap of 15 percentage points, which is larger than the Sub-Saharan Africa gap of 13 percentage points (World Bank Gender Data Portal 2017).

The Findex 2022 data shows that only 47% of adults without a bank account say they could use one without help if opened. Despite most of the data above being outdated, this data point serves as an indication that adult literacy continues to pose significant challenges.

GSMA (2023) presents additional data highlighting the impact of low literacy and digital skills⁶ on mobile internet adoption, especially for women. As shown in the table below (see Figure 11), besides affordability, reading and writing difficulties and lack of awareness of how to use a mobile phone and access internet on a mobile are significant barriers to possessing a mobile phone and using the internet, especially for women.

Figure 11: Barriers to owning a mobile phone and adopting mobile internet in Ethiopia, 2023

% of mobile users who are aware of mobile internet but do not use it who reported the following as something stopping them from adopting mobile internet

	Affordability		Literacy and digital skills				Relevance		Safety and security			Access							
	Handset cost	Data cost	Reading/writing difficulties	Do not know how to access internet on a mobile	Do not know how to use a mobile	Do not have time to learn how to access internet on a mobile	Not sufficient support in learning to use internet	Internet is not relevant for me	Insufficient content in local language	Harmful content (self/family)	Strangers contacting me	Information security	Internet drains my battery	Network coverage	Family does not approve	Access to agent support	Slow connection	No access to internet enabled phone	Hard to find where to buy internet enabled phone
Men	59%	36%	31%	45%	23%	27%	26%	22%	18%	10%	18%	13%	21%	29%	3%	13%	22%	28%	22%
Women	61%	43%	37%	50%	26%	33%	36%	31%	12%	14%	14%	10%	12%	15%	5%	8%	14%	29%	19%

% of mobile users who are aware of mobile internet but do not use it who reported the following as the most important thing stopping them from adopting mobile internet

	Affordability		Literacy and digital skills				Relevance		Safety and security			Access							
	Handset cost	Data cost	Reading/writing difficulties	Do not know how to access internet on a mobile	Do not know how to use a mobile	Do not have time to learn how to access internet on a mobile	Not sufficient support in learning to use internet	Internet is not relevant for me	Insufficient content in local language	Harmful content (self/family)	Strangers contacting me	Information security	Internet drains my battery	Network coverage	Family does not approve	Access to agent support	Slow connection	No access to internet enabled phone	Hard to find where to buy internet enabled phone
Men	33%	3%	17%	10%	2%	3%	1%	7%	1%	1%	2%	1%	2%	10%	1%	0%	2%	0%	5%
Women	32%	2%	25%	12%	2%	5%	1%	7%	0%	1%	1%	0%	1%	3%	1%	0%	2%	1%	3%



Source: GSMA, The Mobile Gender Gap Report 2023

These insights highlight the importance of investing in national literacy programs, especially for women, and raising awareness and understanding around how to use mobile phones as well as mobile internet.

⁵Adult literacy rate is the percentage of people ages 15 and above who can both read and write with understanding a short simple statement about their everyday life (World Bank Gender Data Portal).

⁶GSMA's literacy and digital skills indicator looks at: reading/ writing difficulties, lack of awareness on how to access internet on a mobile, lack of understanding on how to use a mobile, lack of time to learn how to access internet on a mobile as well as lack of support in learning to use internet.

ACCESS

Public- and private-sector stakeholders have a key role to play in this regard. Addressing the gender gap in mobile internet adoption and usage starts by investing in public education initiatives, such as the inclusion of mobile digital skills training in schools, improving the confidence and digital skills of women and girls, developing targeted trainings responding to girls' and women's needs, and ensuring that girls have equal access to education (GSMA 2022c).

In addition, the private and public sectors should ensure that marketing and services are accessible to women and men with lower literacy and digital skills by enabling content in local languages and through more accessible channels, improving the use of pictures, icons and videos, using simplified menus, and integrating voice search and chatbots.

Ensuring that current and future mobile phone users possess the right level of literacy and skills to fully take advantage of these devices and services is not only important to enhance uptake and meaningful use, but also to mitigate financial consumer protection risks by conducting awareness campaigns around possible threats and coping mechanisms.

UNCDF–MInT Partnership on Digital Skills and Literacy

The United Nations Capital Development Fund and the Ministry of Innovation and Technology (MInT) in Ethiopia have been partnering on an upcoming nationwide digital and financial literacy survey. The survey aims to measure Ethiopians' financial and digital literacy levels and how it is utilized in financial matters. The assessment will help create a score for digital literacy, financial literacy, and DFS to identify gaps and develop innovative products and programmes tailored to the needs of citizens. Ethiopia's goal is to ensure that 70% of its citizens are digitally literate and financially included by 2025.



"Survey findings will help increase awareness and understanding of digital financial services among consumers in ensuring that their digital rights [...] are protected in the fast-evolving digital environment. [...] Addressing women's peculiar digital needs can be effectively facilitated by collecting sex-disaggregated data. Thus, by upskilling citizens with the proper knowledge to use financial technology, we can be on the right track to make everyone, particularly the underserved, part of the digital economy." – **Huria Ali**, MInT State Minister

ACCESS

The aforementioned issues highlight that there is no single set of circumstances driving gender gaps in account ownership. Women are not a monolith; some segments may be more constrained by cost, while others are primarily held back by limited literacy and trust. To better understand what specific constraints may be responsible for holding back women and other vulnerable groups as well as their individual needs and demands, focus group discussions with key customer segments and analyses of existing customer behaviour and their financial flows are essential. This will help to highlight the extent to which female and male financial behaviours and needs differ, the potential impact of exogenous factors and the extent to which those impact on the gender gap.

Similarly, DFS providers and policymakers need to join efforts to advance women's financial inclusion and reach those that continue to be un- and under-served.

Key insights from the World Bank's Global Findex 2022 and other global databases:

USAGE

To derive real benefits and harness the opportunities that come with financial inclusion, financial products and services must be used in meaningful, regular and safe ways. Data on payments, savings and borrowing provide insights into behavioural and **usage** patterns. Understanding who is using what services (and why), can shed some light on the interactions between adoption and usage, meaningful gaps as well as opportunities to address current challenges.

1. While financial institution account ownership is growing, meaningful usage in terms of payments, savings, and borrowing is not keeping pace with access – especially for women

Despite the notable progress in financial institution account ownership, reaching meaningful financial inclusion requires much more than that. In theory, having an account should make it easier and safer to store money, build savings, make payments, and access credit. To be meaningfully financially included, individuals must be able to access relevant, affordable, and safe services and be capable of making sound financial decisions. To what extent are these potential benefits being realised?

- **ACCOUNT DORMANCY rates in Ethiopia remain high**

As per Findex 2022 data, among adults with an account ("% with an account, age 15+"), 28% of them reported to have an inactive account,⁷ with percentages being slightly higher for men than for women. Compared to other countries in Eastern and Southern Africa, this rate appears to be remarkable; In 2021, dormancy rates in Kenya, Tanzania, Uganda and Zambia ranged between 2% and 4%.

- **PAYMENTS: The proportion of people making digital payments remains low, and gender gaps persist**

There has been a lot of attention recently to the benefits of digital payments. In many aspects, digital payments may allow users to profit from enhanced security, accountability and tracking as well as convenience vis a vis using cash. However, many may still prefer cash given its accessibility and reliability (especially in contexts with poor infrastructure and unreliable connectivity), absence of transaction fees, and anonymity, among other reasons. While the Findex 2021-2022 data shows upward trends in the digital payments space at the global level and in developing economies—accelerated in part by the Covid-19 pandemic—the picture for Ethiopia is less clear.

⁷ As per the Global Findex Database, the definition of having an inactive account is the following: The percentage of respondents who report neither a deposit into nor a withdrawal from their account in the past year. This also includes making or receiving any kind of digital payment (World Bank Findex).

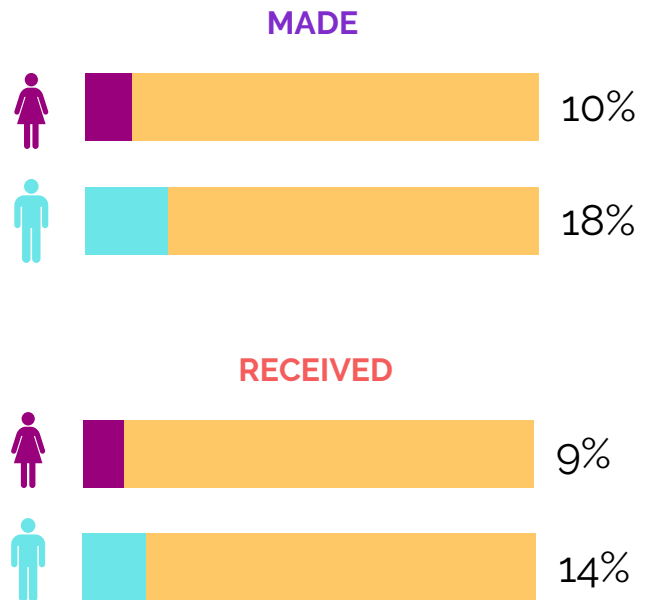
USAGE

Ethiopia remains a heavily a cash-based society and the use of digital payments remains low. As indicated in Figure 12, 18% of men and 10% of women made a digital payment in 2022, while 14% of men and 9% of women received one. Once again, gender gaps remain noticeable.

In 2022, only 3% of adults used a mobile phone or the internet to pay bills, 5% did it to send money, and 2% did it to buy something online. It should also be noted that usage rates tended to be the highest among adults with secondary education or more. Some hypotheses suggest that lower digital and numeric literacy, lack of trust in using the devices, as well as social norm constraints might be responsible for these lower trends, yet further investigation would be required.

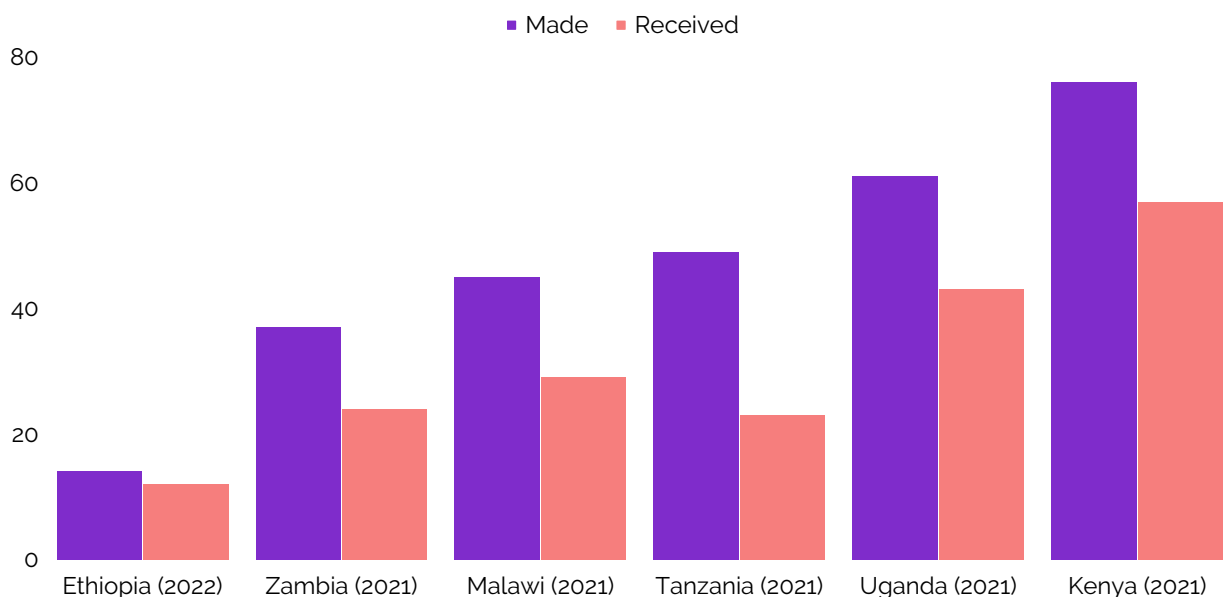
When compared to Eastern and Southern Africa, the percentage of adults in Ethiopia who made or received digital payments remains lower than in other countries. Kenya remains the regional leader in digital payments (see Figure 13 below).

Figure 12: **Women and men who made and received digital payment (% , age 15+), 2022**



Source : World Bank Global Findex 2022

Figure 13: **Percentage of adults who made / received a digital payment in Eastern and Southern Africa (% , age 15+), 2022**

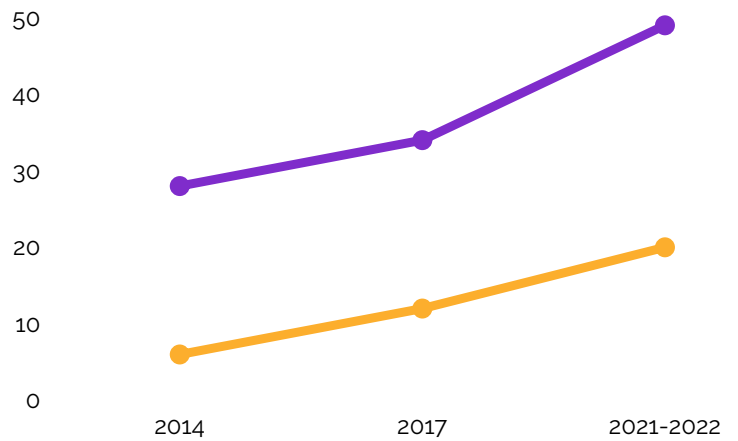
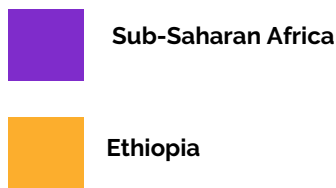


Source : World Bank Global Findex 2022

USAGE

Looking at trends over time, the share of adults in Ethiopia making or receiving a digital payment has increased between 2014 and 2022 from 6% to 20%. Despite the increase, this remains well below the average for Sub-Saharan Africa (see Figure 14).

Figure 14: Share of adults who made or received a digital payment (% , age 15+), 2014-2022



Source : World Bank Global Findex 2022

It should be noted, however, that despite the growth of digital payments across countries, cash will most likely continue to be used for proximate, low-value, and informal transactions. Nonetheless, allowing customers to choose their preferred payment method remains key to ensuring convenience, inclusivity, and customer satisfaction. Recognising that individual preferences and circumstances can vary significantly, it is important to promote a customer-centric approach which fosters a positive user experience and enhances financial inclusion.

Despite recent advancements regarding interoperability and the new roles and responsibilities assigned to the National Switch Operator EthSwitch (see Licensing and Authorization of Payment System Operators Directive No. ONPS/02 | 2020⁸), the merchant payment ecosystem remains fragmented. When the system is fragmented (or rather not yet fully interoperable), incentives to keep using cash for merchant payments remain high among customers.

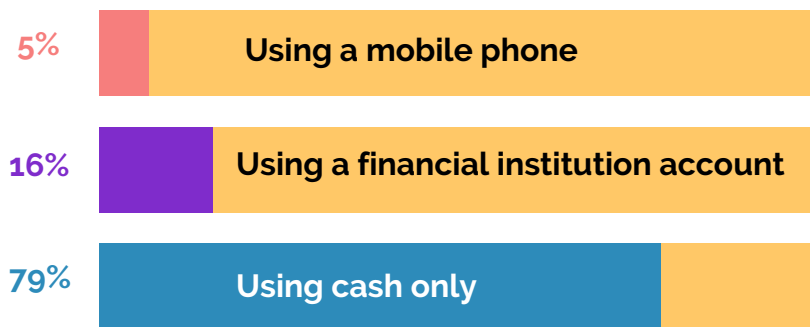
Indeed, lack of interoperability poses barriers to the wide acceptance of specific payment systems or mobile wallets, forcing customers to open multiple accounts. Efforts to improve interoperability among Payment Systems Operators, Payment Instrument Issuers and newly established Fintechs are paramount to enable seamless transactions and reduce barriers to digital payments.

⁸ According to the Licensing and Authorization of Payment System Operators Directive No. ONPS/02|2020, the National Bank of Ethiopia has recognised EthSwitch S.C. as the single national switch operator in Ethiopia, serving as a payment gateway, and responsible for routing, clearing, and settlements of transactions. As such, EthSwitch will provide interoperability and interconnectivity among licensed switches and other authorised payment systems providers.

USAGE

As highlighted in Figure 15 below, of those making utility payments, nearly 80% use cash only.

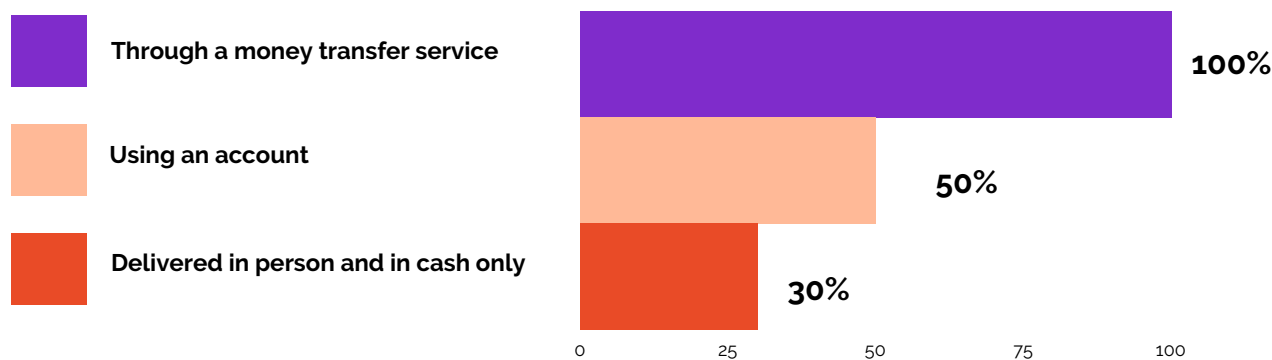
Figure 15: % of adults age 15+ who made a utility payment (% who paid utility bills), 2022



Source : World Bank Global Findex 2022

As for sending domestic remittances, according to Findex 2022 (see Figure 16), 100% of senders use money transfer services as their main channel for domestic delivery. 50% of senders do it through an account, while 30% delivered remittances in person and in cash only.

Figure 16: Sending domestic remittances through money transfer services is the preferred option among adults in Ethiopia (% of senders 15+), 2022



Source : World Bank Global Findex 2022

Regarding cross-border remittances, although the Ethiopian government and the National Bank of Ethiopia (NBE) have launched various strategies, initiatives, and reforms to improve the financial sector and support digital payments, the formal remittance sector remains suboptimal compared to the market potential, with IOM estimating that close to 78% of remittances are received through informal channels.⁹ Informal networks remain the most prominent way for Ethiopians to send money to Ethiopia, particularly to rural households (IOM 2017; CENFRI 2018). The difference between the exchange rates in the formal and informal

⁹ As indicated by the Institute of Security Studies, Ethiopia is facing a foreign currency deficit, leading to a thriving black market exchange that exacerbates illicit financial flows into the country. As a result, many unregulated foreign currency exchange bureaus as well as illegal hawala – an informal money transfer outside the banking system – have emerged. When currency is exchanged at the black market rate, a US dollar can be worth double the official bank rate (ISS 2023).

USAGE

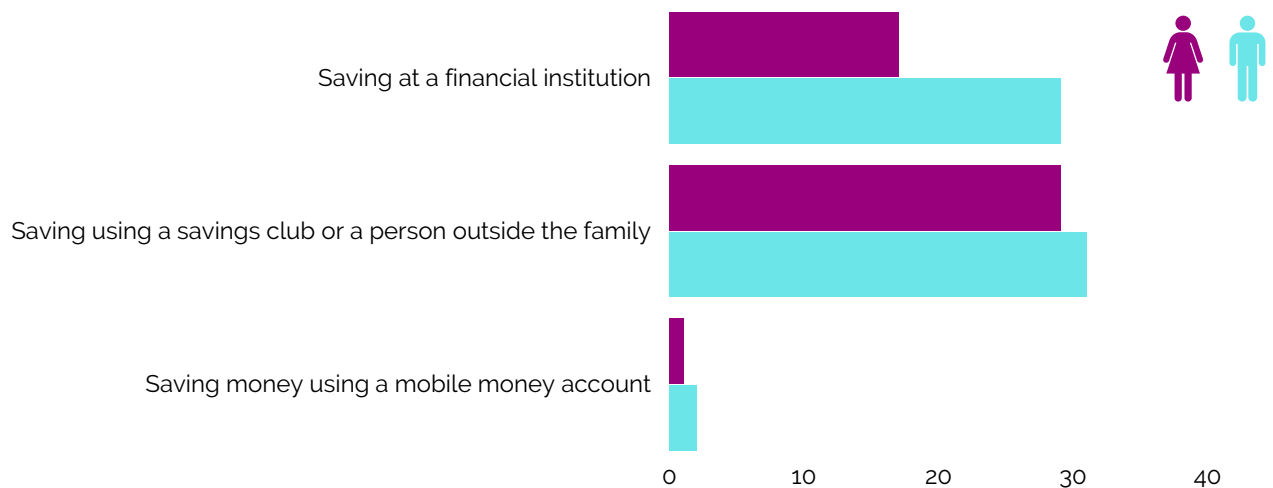
sectors seems to be the main driver for customers using informal channels. UNCDF has been working with the NBE to improve the flow of cross-border remittances. Through this partnership, NBE has released nine directives, including implementing the foreign savings currency account to encourage inbound forex flows through the formal sector.

- **SAVINGS: Saving clubs (Ekub) or people outside the family are the most popular way of saving, followed by financial institution accounts**

Beyond payments, financial accounts help people build savings, which enable higher income-generating and productive investments, and are a driver to building financial resilience. In 2022, around 1/2 of Ethiopian adults with a financial institution account used it for savings, while about 1/3 of adults who own a mobile money account used it for savings. Savings club / family and friends remain relevant saving methods. A datapoint which is missing relates to savings in kind; despite the absence of data on this issue, acquired knowledge indicated that this is a preferred saving method for many, in Ethiopia and beyond.

As highlighted in the graph below (see Figure 17), gender gaps persist in all categories, even though they jump from a low 2 percentage points for 'saving through a savings club or a person outside the family' to 12 percentage points for 'savings at financial institutions.'

Figure 17: **Where are people in Ethiopia saving? (% , 15+), 2022**



Source : World Bank Global Findex 2022

USAGE

In 2022, 38% of women vs. 55% of men have a financial institution account, but only 17% of women and 29% of men use those financial accounts for savings (see Figure 18). Looking at yearly trends, gender gaps for financial institution savings have been increasing steadily over the years, rising from 2 percentage points in 2014 to 12 percentage points in 2022. This suggests that the gender gaps in savings may be also driven by access constraints.

When it comes to saving using savings groups or with a person outside their family, the gender gap is substantially lower, remaining below 3 percentage points over the years (see Figure 19).

While traditional savings groups will likely remain an important method of saving for large numbers of women, financial products and services must be designed in such a way to allow both women and men to access more formal savings methods. They must be affordable, trustworthy, and relevant for their users, which stresses the need to invest in literacy and awareness raising campaigns, stronger transparency, as well as proper monitoring and training of mobile money agents.

Figure 18: Saved at a financial institution (% , age 15+), 2014-2022

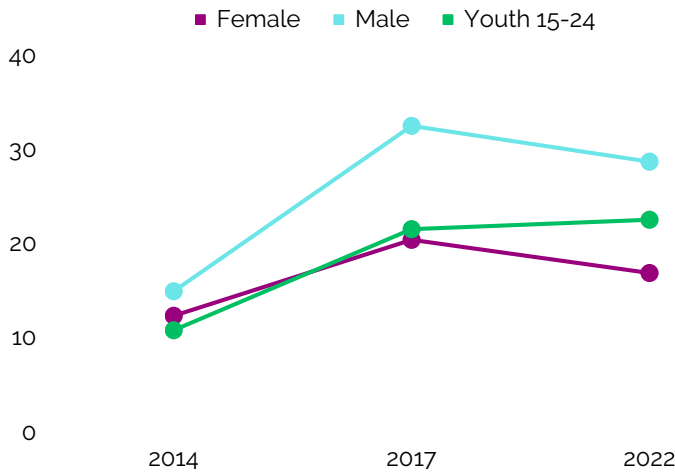
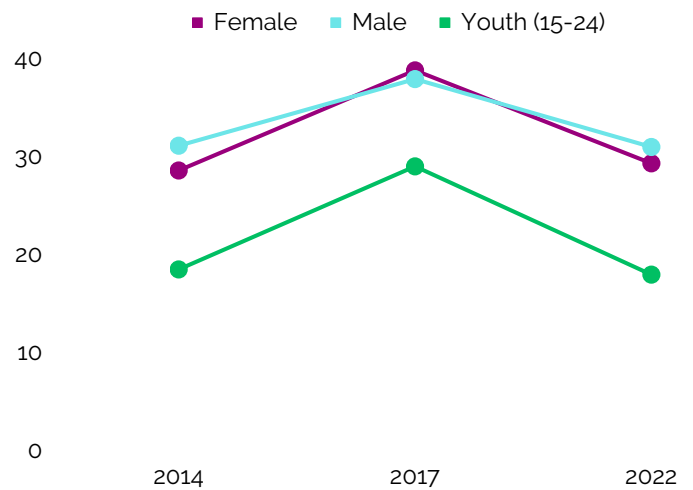


Figure 19: Saved using a savings club or a person outside the family (% , age 15+), 2014-2022



Source : World Bank Global Findex 2022

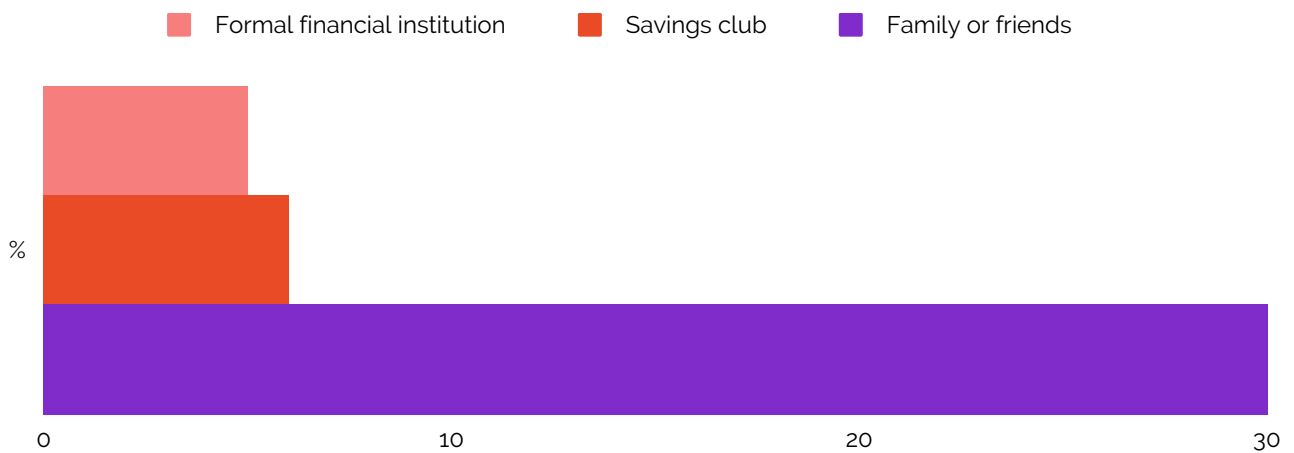
USAGE

- **BORROWING: Majority of adults in Ethiopia still borrow from family and friends**

When faced with unexpected expenses (such as paying medical bills, funerals or repairing the damages caused by a storm) as well as future ones (such as planning for a wedding, education), adults worldwide often turn to borrowing. Yet, often, high interest rates of microcredit institutions as well as lengthy and cumbersome procedures imposed by banks make formal access to credit a challenge. This is particularly true for women, who do not always meet the necessary collateral requirements to access credit.

These challenges are evident in Ethiopia as well. As emerged from Findex 2022, most people who borrowed relied on family and friends as their source for borrowing (30% of adults, see Figure 20 below). Borrowing through saving clubs or financial institutions remains low (6% and 5% respectively). High rates of borrowing from family and friends also match with financial resilience data, which indicate that 29% of Ethiopians still rely on family and friends as their main source of emergency funding.

Figure 20: **Where are Ethiopian adults borrowing from? (% , age 15+), 2022**

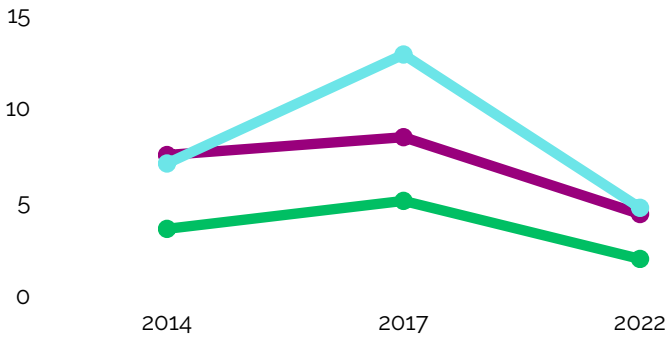


Source : World Bank Global Findex 2022

USAGE



Figure 21: Ethiopians who borrowed from a formal financial institution (% , age 15+), 2014-2022



It is interesting to note that overall rates for borrowing from all sources have decreased over the years, except for men borrowing from family and friends (see Figure 23).

Gender gaps are almost non-existent for borrowings from financial institutions (see Figure 21), while they have grown over the years for borrowings from savings clubs (see Figure 22) and family and friends (see Figure 23).

Examining the causes behind the general decline in borrowing rates from savings clubs and financial institutions would require additional research.

Figure 22: Ethiopians who borrowed from a savings club (% , age 15+), 2014-2022

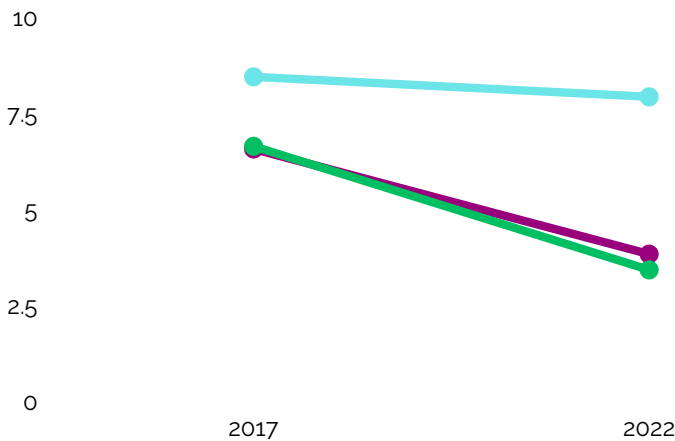
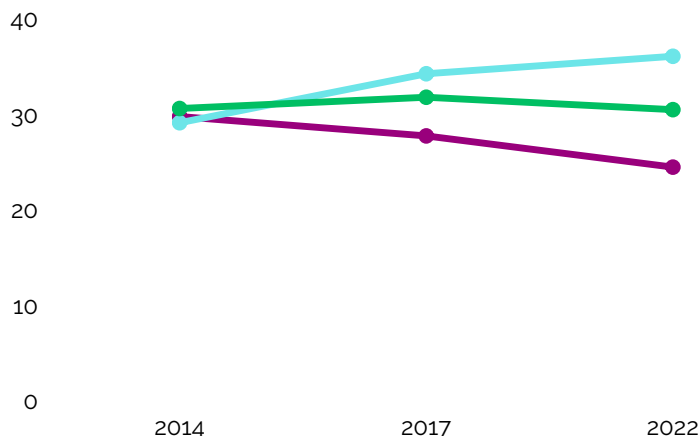


Figure 23: Ethiopians who borrowed from family or friends (% , age 15+), 2014-2022

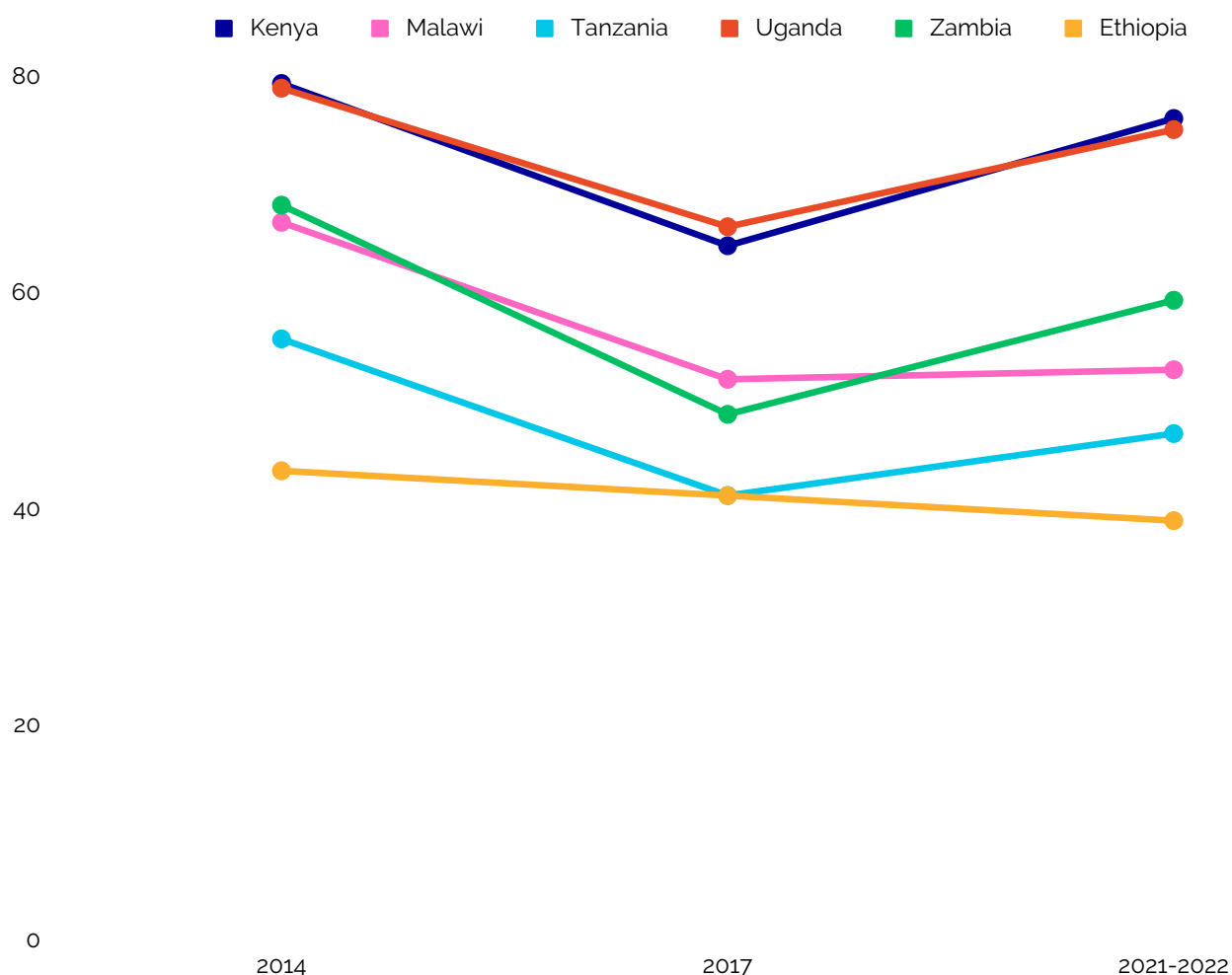


Source for all graphs: World Bank Global Findex 2022

USAGE

When comparing borrowing rates in Ethiopia to those in other countries in Sub-Saharan Africa, it is evident that borrowing rates in Ethiopia followed a similar decline from 2014 to 2017. Borrowing rates increased again in other countries from 2017-2021 but continued to decline in Ethiopia from 2017-2022 (see Figure 24).

Figure 24: **Borrowed any money (% , age 15+), 2014-2022**



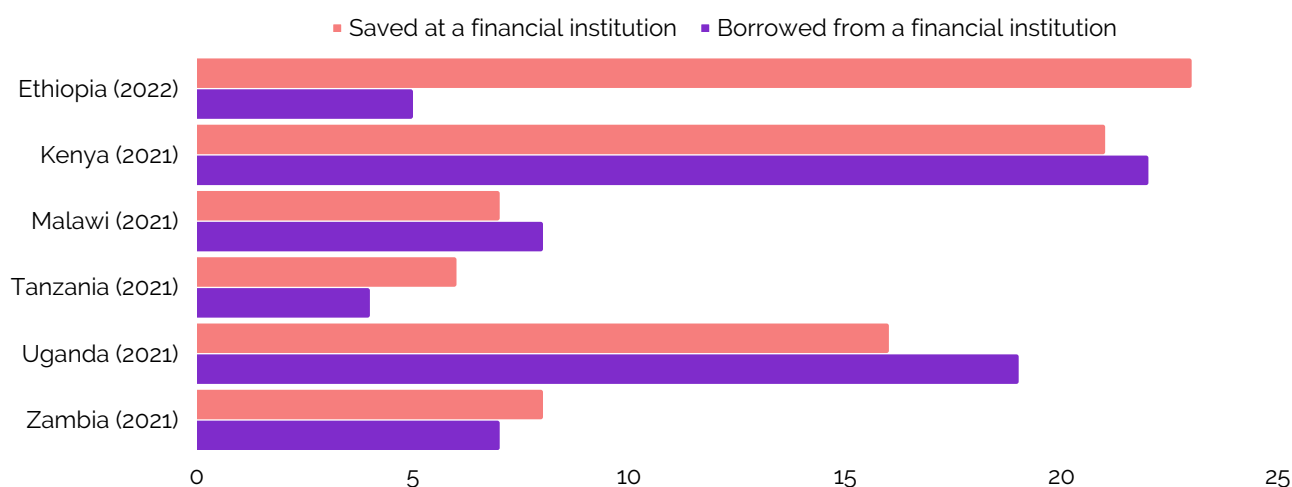
Source : World Bank Global Findex 2022

When comparing borrowing and savings, different patterns can be identified for financial institutions and savings clubs.

For financial institutions, Ethiopia shows a much more profound gap (18 percentage points) between savings and borrowing than other countries. As indicated in Figure 25, in 2022 more people saved than borrowed using formal financial institutions.

USAGE

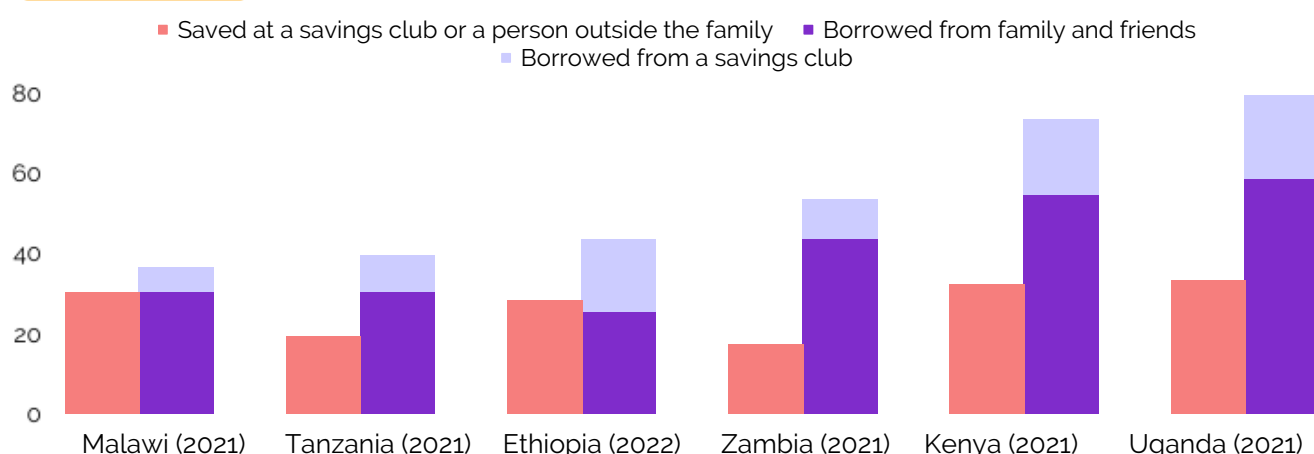
Figure 25: Saved vs. borrowed from a financial institution (% , 15+), 2022



Source: World Bank Global Findex 2022

For informal savings and borrowings (see Figure 26), all countries depicted below show that more people borrow informally from family and friends and saving clubs than save informally through saving clubs or a person outside the family. In some countries like Ethiopia and Malawi the difference is less pronounced, while in others like Kenya, Uganda or Zambia it is more pronounced. There could be multiple explanations for the observed rates, one being that informal borrowing might be better suited to cover for short-term financial needs than formal ones. Conversely, the lower informal saving rates do not necessarily indicate that people save less overall, as they might actually prefer formal solutions. However, it could also hint to the limitations faced by some saving groups, whose capacity to lend higher sums is constrained by their size and financial capabilities.

Figure 26: Saved vs. borrowed from savings club or a person outside the family (% age 15+), 2022



Source: World Bank Global Findex 2022

Ultimately, whether adults decide to save and borrow formally and informally is influenced by multiple factors, such as ease of access to emergency funds, the need for larger or smaller loans, short- vs. longer-term saving plans, etc. Regardless of people's financial choices, it is crucial to increase awareness about the advantages, disadvantages, and risks associated with both formal and informal solutions, ensuring that the risks to consumers are minimised.

Key insights from the World Bank's Global Findex 2022 and other global databases:

FINANCIAL HEALTH

Access to and usage of financial products and services is fundamental to advancing financial inclusion, yet these alone are not enough to improve **financial health**. Meaningful inclusion that leads to improved people's financial lives resides in the ability to make sound financial choices, manage day-to-day finances, be resilient against shocks, and be confident and in control of one's own financial life (UNCDF 2021, see Figure 27). Adopting a more holistic approach to financial inclusion will be the key to better understanding positive impact and how to achieve it.

Figure 27: Dimensions of Financial Health



Source : UNCDF 2022

FINANCIAL HEALTH

1. Access and usage matter, but quality and impact of financial inclusion are key

We have so far examined financial inclusion through the lenses of access and usage. Just as access to affordable, relevant, and safe financial services is a prerequisite to usage, meaningful usage of those services is essential to improving individual and collective financial health, resilience, and economic stability. Yet, increased access to and usage of finance needs to also be assessed against credit and savings rates as well as the degree of reliance or dependency on such credit and savings for emergency situations. For example, it is crucial to consider whether adults are saving for long-term needs or solely for healthcare expenses, and whether borrowing is done to cover daily expenses vs. unforeseen financial burdens.

To be meaningfully financially included, individuals need to be capable of making sound financial decisions and feel in control of their financial lives, while being protected by an enabling regulatory environment. Choice and control are essential elements to achieving financial resilience, a key component of financial health. Financial resilience is their ability to meet daily needs, absorb economic shocks, and plan for the future.

As shown in Figure 28 below, financial health is multidimensional, influenced by individual (e.g., age, gender, income...) and external (e.g., social norms, market stability, access to financial services) factors. These factors are important drivers of financial health, both on their own and in combination with one another.

Figure 28: **What drives financial health outcomes?**

DRIVERS

Individual factors

Age, gender, skills, literacy, psychological attributes, financial behaviours, income, socio-economic condition

External factors

Social norms, financial services access, social safety nets, economic condition, government stability, consumer protection regulation mechanisms, markets and institutions



OUTCOMES

Financial security (Day-to-day)

Ability to meet current and ongoing financial obligations such as food, rent, utility bills and debt payments

Financial resilience (Rainy day)

Ability to cope with income and expense shocks such as job loss or health emergency

Financial control (Feeling)

Confidence and control over one's finances, now and in the future

Financial freedom (One day)

Ability to meet long-term financial goals and pursue choices freely such as buying a house or going on a vacation

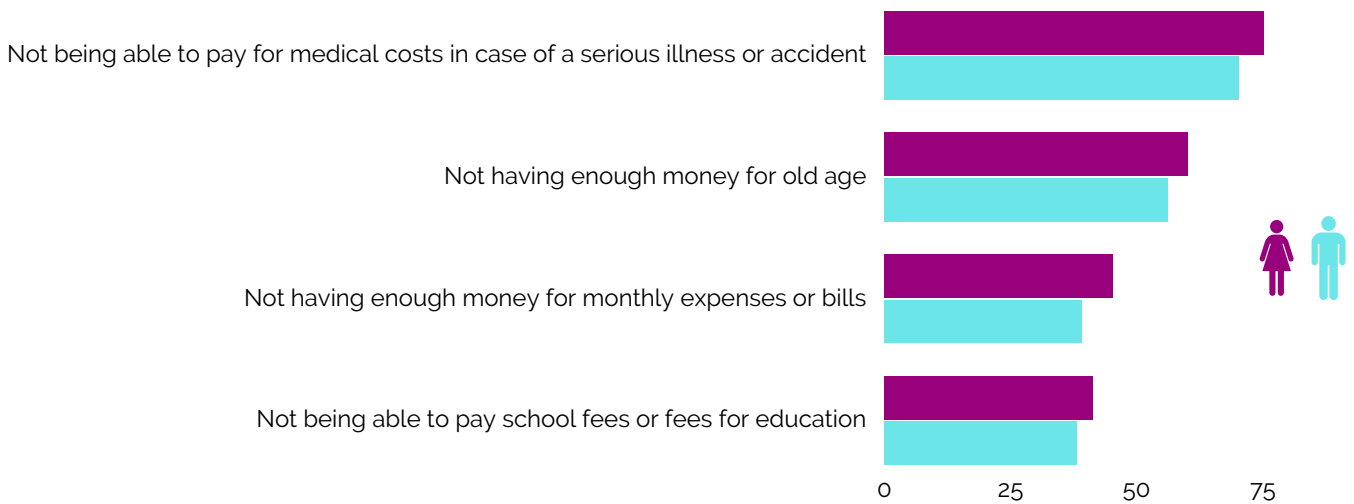
Source : UNCDF 2022

FINANCIAL HEALTH

2. Financial health offers a robust and holistic framework for defining and measuring individuals’ economic wellbeing; yet the picture in Ethiopia remains complex

There is no universally accepted way to measure financial health, but Findex 2022 offers indicators that assess the ability to come up with emergency funds, the source of those emergency funds, and people's most worrying financial issues. Current data indicate low levels of financial health in Ethiopia. In all categories, women are also reported to be more worried than men (see Figure 29).

Figure 29: **Ethiopians are very worried about...(% age 15+), 2022**



Source : World Bank Global Findex 2022

Financial security is the ability to meet current and ongoing financial obligations such as paying regular bills and school fees. 45% of women and 39% of men indicated that they are very worried about not having money to pay for monthly expenses or bills. 41% of women and 38% of men indicated that they are very worried about not being able to pay school or education fees (Findex 2022).

Financial freedom is the ability to meet long-term financial goals such as saving for pension. 58% of Ethiopians said they were very worried about not having enough money for old age (Findex 2022). This data should be analysed further and assessed against the availability and adequacy of pension coverage schemes in Ethiopia, levels of awareness and information around financial planning, conflicting and more immediate financial priorities as well as cultural and social norms, among others. As per Findex data (2022), in Ethiopia only 8% of adults saved for old age, which suggests that enhancing a culture of long-term future investments by decreasing people’s reliance on social safety nets is a key task and opportunity for the financial and public sector in Ethiopia.

FINANCIAL HEALTH

Financial resilience is the ability to cope with income and expense shocks. 72% of surveyed adults in Ethiopia (Findex 2022) said they were very worried about not being able to pay for medical costs in case of a serious illness or accident. When asked about this, 64% indicated that this was their most worrying financial issue (Findex 2022).

Financial control refers to confidence and control over one's finances. This is the most challenging dimension to measure, as it involves subjective perceptions and emotions. Self-assessment questionnaires can give us a high-level understanding of people's subjective perceptions and attitudes, complementing other financial indicators. Such questionnaires can touch upon individuals' perceived levels of control, confidence or worry around their finances, financial behaviours vis-a-vis saving and borrowing, as well as literacy levels (as portrayed by the Findex survey). An example of this is presented in the table below.

When asked about their ability to come up with emergency funds in 30 days, only 15% of women vs. 11% of men and youth in Ethiopia said this was possible and not difficult at all. 53% of women vs. 46% of men and 45% of youth stated this would be "possible and very difficult"; 9% of women vs. 11% of men and youth said that this was "not possible" (see Figure 30).

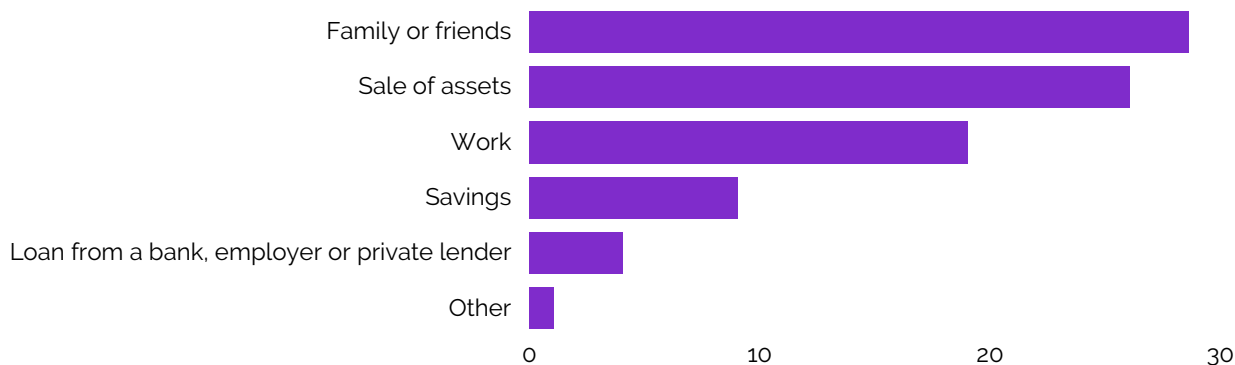
Figure 30: **Coming up with emergency funds in 30 days (% , age 15+), 2022**



Source : World Bank Global Findex 2022

As for the source of emergency funds for adults in Ethiopia, the most cited source remains family or friends (29%), followed by sale of assets (26%) and additional work (19%). Only 9% of adults would rely on savings, while 4% said they would access a loan from a bank, employer, or private lender (see Figure 31). However, while borrowing from family members and friends may reduce financial hardship, by itself it does not alleviate financial stress, as noted in research by the Financial Health Network (2021).

Figure 31: **Main source of emergency in 30 days (% age 15+), 2022**



Source : World Bank Global Findex 2022

These indicators, and gender gaps present in resilience, raise many questions. Particularly, in relation to people's lack of preparedness for emergencies and resilience to shocks. When gender gaps are taken into account, this may disproportionately affect women's financial health and access to economic opportunities.

For financial health measurement, also consider the following resources:

- UNCDF, [Delivering Financial Health Globally: A collection of insights, approaches and recommendations](#)
- Consumer Financial Protection Bureau, [Measuring financial well-being: A guide to using the CFPB Financial Well-Being Scale](#) and [CFPB Financial Well-Being Scale](#), 2018
- Melbourne Institute, [Financial Wellbeing Scales](#), 2018; [How to use the Reported Financial Wellbeing Scale](#), 2023
- Financial Health Network, [FinHealth Score Toolkit](#)

Conclusions

High-level observations

Financial literacy and digital skills are an important prerequisite to meaningful access, usage, and control over financial and digital financial services as well as ownership of mobile phones and use of the internet. In Ethiopia, however, basic literacy and awareness of mobile internet are limited, especially for women. Policymakers and regulators should invest in nationwide literacy and educational programs as well as awareness-raising campaigns that enhance basic literacy skills and increase women's and girls' confidence and digital skills. The public sector can work together with the development community and the private sector to develop interventions, products, and services which respond to digital users' learning needs. Increasing financial literacy is also vital for strengthening financial consumer protection. By equipping individuals with the necessary knowledge and skills, they can make informed financial decisions, hold institutions accountable, leverage redress mechanisms, and protect themselves from financial harm.

- See UNCDF's [Partnership on Digital Skills and Literacy](#) with the Ministry of Innovation and Technology (MIInT)

Reliable, accessible and safe infrastructure and connectivity are key for the advancement of technological innovation in Ethiopia. Today, internet connectivity rates are low, especially in rural areas. As highlighted by Findex (2022), lack of proximity to financial services remains a barrier. The telecommunications and connectivity infrastructure has been evolving rapidly, as highlighted by GSMA as well as local data. Continued investments into infrastructure and stable connectivity in urban and rural areas are essential to improve access to financial services, leverage digital payments, and drive economic growth. This requires a comprehensive, collaborative approach, emphasising the importance of public and private sector consultation to identify and address any barriers to agent network development.

Strengthening measurement frameworks and enhancing the collection, use and dissemination of supply- and demand-side data – disaggregated by demographics, geolocation, sector etc. – is key for driving evidence-based policies and regulations and creating an enabling environment. Using data to understand the impact of financial sector policies and regulations upon the most vulnerable is also crucial. Ethiopia has wide gender gaps in access and usage of financial services. This sheds light on the importance of monitoring trends and revising policies which might contribute to widening such gap (e.g., inability to meet KYC requirements even for lower-tier accounts, lack of disaggregated data on a wide scale, gender-blind regulations which disregard social norms). The revision and implementation of the Ethiopia National Financial Inclusion Strategy could be a powerful opportunity to leverage such a holistic approach. The Strategy would benefit from measurable, disaggregated indicators assessing financial inclusion trends, gender, urban-rural gaps, and people's financial health and resilience. Similarly, working with the private sector remains vital to invest in gender segmentation for research and product design and to build the business case for serving women and low-income customers.

Building meaningful partnerships is important to enhance Ethiopia's journey of inclusion and digitisation. However, public reforms and private-sector advancements do not always go hand-in-hand. As discussed in the report, women – among other groups – are still underrepresented in leadership positions, lack full access to economic opportunities, and experience barriers to full labour force participation. At the same time, they rely heavily on informal savings and borrowing options, which may respond better to needs emerging from social norms barriers (e.g., lack of time, ownership of resources). Bringing together the public and private sectors, civil society, industry and consumer groups, and the international community can help Ethiopia develop more pertinent and sustainable solutions to achieving financial wellbeing. Conducting regular, meaningful stakeholder consultations is key to enhance the positive benefits of policies and regulations on the population, and to avoid unintended consequences. Leveraging participative processes during the design and implementation of policies is fundamental. This means listening to the voices of consumers and representatives of excluded groups and empowering them to hold the government and private sector accountable for their commitments. In this process, it is extremely important to include female representation at decision-making levels, fostering gender diversity in leadership.

- For an example of gender-intentional policymaking to advance women's digital financial inclusion in Ethiopia, see UNCDF Policy Accelerator's Women's Digital Financial Inclusion Advocacy Hub – Ethiopia Coalition.

Assessing the impact of financial services policies and regulations upon people's financial health and wellbeing remains a priority. Despite the high-level data provided in the report, the state of financial health, wellbeing, and resilience among adults in Ethiopia is still understudied. Current Findex 2022 data highlight the high level of concern regarding financial resilience (e.g., paying for emergency health costs), financial freedom (e.g., saving up for old age), financial security (e.g., having money for monthly expenses, education fees), and financial control. This sheds some light on the importance of deepening the conversation around access, meaningful usage, and safe control of financial and digital financial services and translating these insights into programmatic interventions. It is vital, however, to enhance our knowledge of the implications of financial sector development policies on financial health in Ethiopia. Current developments in Ethiopia offer opportunities that may be leveraged, including saving plans, pension coverage schemes, low-value loans, accessible insurance, and targeted awareness campaigns around financial planning and independence.

Specific actions

Enhancing competition in the Ethiopian market and strengthening financial entity licensing.

It is key that the Payment Instrument Issuers (PII) Directive (NBE No. ONPS/01/2020) and the Payment Systems Operators (PSO) Directive (NBE No. ONPS/02/2020) facilitate market entry of innovative entities (e.g., fintechs, other financial service providers), and lower licensing market barriers. In line with the National Payment System (Amendment) Proclamation no. 1282/2023, the PII Directive defines Payment Instrument as “any instrument, whether tangible or intangible which is issued against the receipt of fund equivalent in Ethiopian Birr, that enables a person to obtain money, goods or services or to otherwise make payments which include electronic money and cards”. Even though this definition caters beyond mobile money issuers, the clauses, sections and generally the content of the Directive may imply that the Directive is only addressed toward mobile money issuers. This creates an imbalance of licensing requirements toward other types of Payment Instrument Issuers, which may struggle in getting licensed. Additionally, all foreign entrants are required to provide NBE with evidence of payment of USD 150 million for the Investment Protection Fee, which may restrict innovative medium or small-scale payment instrument issuers from entering the market.

To promote competition in the payments sector, introducing a tiered system depending on the kind of institutions applying for the license might be a valuable solution, allowing non-mobile money issuers to operate under NBE’s supervision and controlling the number of mobile money providers entering the market. In the long term, increasing the number of licensed and regulated entities should increase market competition, potentially leading to lower prices and better products and services. It remains key to also strengthen financial consumer protection, by ensuring that consumers are engaging with institutions that are subject to financial consumer protection regulation. This would ensure that consumers' rights are safeguarded and that redress mechanisms are available. Aligning the Payment System Proclamation, the PII and PSO Directives to relevant international practices and standards could be beneficial to further enhance and regulate the payment landscape in Ethiopia.

Bolstering in-house human resources within regulatory entities to improve market stability. Enhancing human resources capacity positively impacts on the regulators' ability to license and supervise as well as to properly apply a risk-based and proportional approach for both licensing and supervision. This goes a long way in improving the enabling regulatory environment and, as a result, removing barriers of entry and supporting dynamic competitive marketplace for all types of DFS providers. Over the long term, this will also have positive impact on the financial consumer protection landscape in Ethiopia.

Conclusions

Prioritising financial consumer protection through a customer-centric approach to monitoring and supervision, focusing on the impact of financial products, services, policies, and regulations on end users. This requires effective implementation of Ethiopia's 2020 Financial Consumer Protection Directive and harmonisation of consumer protection across relevant payments systems directives. It also involves strengthening internal policies and procedures on disclosure, transparency, fair access, privacy and data protection, guarantee schemes, and insolvency as well as enforcing redress mechanisms.

- See UNCDF Policy Accelerator's contribution to [Digital Financial Services: 14 actions to increase inclusion and protection](#)

Enhancing interoperability of digital financial services in the market by further refining the legal and regulatory environment for Payment System Operators, especially for licensing. There is a need to widen and further clarify criteria for fintechs that fall within the licensing regime provided by the Payment System Operators Directive. This will help reduce uncertainty and mitigate risks of having qualified PSOs operating outside the purview of NBE's regulatory mandate. This will also promote further interoperability at diverse levels (merchant payments, P2P payments, and other use cases) by providing access to the National Switch (EthSwitch) to customers of these fintechs. It is important to note that significant steps have already been taken to promote interoperability, including EthioSwitch's enabling of POS interoperability (EthSwitch 2020) and the National Digital Payment Strategy's (NBE 2021) proposition to develop a standard QR code for merchant payments.

Harnessing the potential of digital ID to expand access to finance. Limited access to proper documentation is a major constraint to account opening and a driver of financial exclusion in Ethiopia, especially for women. To further drive inclusive access to finance and the acceleration of digitisation in the country, it is key to enhance the expansion of Ethiopia's digital ID (Fayda) in both urban and rural areas. This should be closely intertwined with broader investments in digital public infrastructure and digital public goods, capitalising on their synergistic potential to propel economic progress.

References

Centre for Financial Regulation & Inclusion (CENFRI), Exploring barriers to access in sub-Saharan Africa series, Volume 4, Remittances in Ethiopia, 2018

Consumer Financial Protection Bureau, Measuring financial well-being: A guide to using the CFPB Financial Well-Being Scale and CFPB Financial Well-Being Scale, 2018

Demirgüç-Kunt Asli, Leora Klapper, Dorothe Singer, and Saniya Ansar. The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Washington, DC: World Bank. doi:10.1596/978-1-4648-1897-4. Licence: Creative Commons Attribution CC BY 3.0 IGO, 2023

Ethiotelecom, First Half Year Business Performance Summary Report, 2023

EthSwitch, EthSwitch Enables POS Terminal Interoperability, 2020

Financial Health Network, FinHealth Score Toolkit

Financial Health Network, When Does Financial Support from Family, Friends Play the Role of Emergency Savings?, 2021

GSMA, Mobile Connectivity Index, 2022a

GSMA, The Mobile Economy Sub-Saharan Africa, 2022b

GSMA, Policy considerations to accelerate digital inclusion for women in low- and middle-income countries, 2022c

GSMA, The Mobile Gender Gap Report, 2023

Institute for Security Studies (ISS), Ethiopia's informal currency exchanges: validate or veto?, 2023

International Labour Organization, ILO Modelled Estimates and Projections database (ILOEST), ILOSTAT, 2022, via World Bank Gender Data Portal

International Monetary Fund, World Economic Outlook - Inflation rate, average consumer prices, 2023
National Bank of Ethiopia, Licensing and Authorization of Payment System Operators Directive No. ONPS/02/2020

International Organization for Migration (IOM): Scaling Up Formal Remittances to Ethiopia, 2017

National Bank of Ethiopia, A Snapshot of Financial Sector Indicators as of March, 2023

National Bank of Ethiopia, National Payment System (Amendment) Proclamation No.1282/2023

National Bank of Ethiopia, National Digital Payments Strategy 2021–2024, 2021

National Bank of Ethiopia, Licensing and Authorization of Payment Instrument Issuers Directive No. ONPS/01/2020

References

National Bank of Ethiopia, [Licensing and Authorization of Payment System Operators Directive No. ONPS/02/2020](#)

National ID, [Ethiopian Digital Identification Proclamation No.1284/2023](#), 2023

National ID, [Fayda for Ethiopia](#)

Majorie Chalwe-Mulenga, Eric Duflos, Gerhard Coetzee, CGAP, [The Evolution of the Nature and Scale of DFS Consumer Risks: A Review of Evidence](#), 2022

Melbourne Institute, [Financial Wellbeing Scales, 2018](#) and [How to use the Reported Financial Wellbeing Scale, 2023](#)

Kenn Abuya, Techabal, [Here is Safaricom Ethiopia's 7-month report card](#), 2023

UNCDF, [Delivering Financial Health Globally: A collection of insights, approaches and recommendations](#), 2022

UNCDF, [Digital and Financial Literacy in Ethiopia: UNCDF and Ministry of Innovation and Technology Convene Key Stakeholders to Deliberate on an Upcoming Nationwide Survey](#), 2023

UNCDF Policy Accelerator, [Digital Financial Services: 14 actions to increase inclusion and protection](#), 2022

UNCDF Policy Accelerator, [Gender-intentional policymaking](#)

UNCDF Policy Accelerator, [Why financial health must be treated as the true north to augment the success of financial inclusion](#), 2021

UNCDF Policy Accelerator, [Women's Digital Financial Inclusion Advocacy Hub – Ethiopia Coalition](#)

UNDP, [2022 Global Multidimensional Poverty Index \(MPI\)](#), 2022

United Nations Statistics Division Development Data and Outreach Branch (UNSTATS), [SDG Indicators - Metadata repository](#), 2019, via [World Bank Gender Data Portal](#)

World Bank, [Identification for Development \(ID4D\) Data](#), 2017

World Bank, [Poverty and Inequality Platform](#), 2015

World Bank, [Women, Business and the Law 2023](#), 2023

World Bank, [World Bank Gender Data Portal](#), 2015, 2017, 2020 data

World Economic Forum, [Global Gender Gap Report, Insight Report](#), 2022

About UNCDF

The United Nations Capital Development Fund (UNCDF) is the United Nations' flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022–2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development; specifically by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on such development themes as green economy, digitalization, urbanization, inclusive economies, gender equality and women's economic empowerment.

A hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial & business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping) which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy & biodiversity finance, and sustainable food systems finance).



Impact Capital for Development

uncdf.org/ethiopia | policyaccelerator.uncdf.org